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# **BASIC INCOME AND THE LABOUR MARKET**

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**BIRG Discussion Paper No. 1**

Edited by Hermione Parker

**BASIC INCOME RESEARCH GROUP**

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## **BASIC INCOME DEFINED**

A Basic Income scheme would phase out as many reliefs and allowances against personal income tax, and as many existing state financed benefits as practicable; and would replace them with a Basic Income (I') 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 and create a less divided society.

## **BASIC INCOME RESEARCH GROUP (BIRG)**

BIRG was set up in 1984 under the auspices of the National Council for Voluntary Organisations (NCVO), to research all aspects of reform along the lines of a basic income. The association with NCVO continued until 1987, when BIRG became independent. In 1986 BIRG affiliated to the BASIC INCOME EUROPEAN NETWORK (BIEN), which it helped to found. In 1989 BIRG became a registered charity (No 328198).

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1 Mails of publications and activities available from:  
BIRG, 1, Ht. > IVpys Road, London SEW 5SG,  
Telephone 071-639 9838

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Edited by Hermione Parker

Basic Income Research Group  
1991

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Basic Income Research Group  
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Rochdale OL12 7AF  
Telephone 0706 44981

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## MEMBERS OF THE STUDY GROUP AND ACKNOWLEDGEMENTS

This paper is the outcome of structured discussions during the period autumn 1989 to summer 1990 between members of BIRG's labour-market study group. The group comprised the following people, who came as individuals, not as representatives of the institutions where they work, and who do not necessarily subscribe to all the views set out in the paper. BIRG wishes to thank them for agreeing to participate in the group, and for the time and effort they put into it:

Sandy Anson: Institute of Directors

Anne Gray: economist

Charles Handy: author and visiting Professor at the London Business School

Bill Jordan: University of Exeter (BIRG)

Trevor Mawer: Trades Union Congress

Ken Mayhew: National Economic Development Office, and Oxford

University Mark Minford: Low Pay unit  
Hermione Parker: Study group secretary (BIRG)  
Tony Walter: Chairman (BIRG)

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## INTRODUCTION

The purpose of this paper was not to reach agreed recommendations but to set out the issues and different viewpoints clearly. The members of the study group were deliberately chosen to comprise a wide range of opinions. Some of its members came as avowed seep tics and none came as representative of any institution. All were nevertheless agreed on the inadequacies of the present tax and benefit systems.

For readers new to Basic Income (BI) it is important to emphasise that 151, as defined by BIRG, involves integration of the tax and benefit systems and is funded by a personal income tax. This should not be taken to imply that other forms of 'universal benefit' — like social dividend — are ruled out by BIRG ; nor does it imply that the revenue necessary to fund such provision must always be raised through personal income taxation; but it does explain why the alternative methods are not referred to in this paper.

Although the discussions revealed large areas where the outcome of a BI system was uncertain, the group was in most cases able to spell out the possibilities. Throughout the discussions a distinction was drawn between Full Basic Income (FBI) and Partial Basic Income' (FBI) — with the former defined as an income sufficient to live on, and the latter as insufficient. For practical purposes, the group agreed to concentrate on the effects of a FBI, not because they preferred it, but because it is the only form of BI that might be introduced in the foreseeable future.

On this basis, the indications are that BI could have beneficial labour-market effects, and merits serious consideration — a conclusion similar to that reached by a Sub-Committee of the House of Commons Treasury and Civil Service Select Committee in 1983 (House of Commons 1983). On the other hand there was no agreement within BIRG 's study group on whether the introduction of a BI should or should not be accompanied by a statutory minimum wage.

For readers new to BI, it is also important to understand that *BI is not just another benefit*, nor is it intended as compensation for low earnings or loss of earnings. Unlike conventional social security benefits, the Bis would be paid without reference to the recipient's earnings or labour market status (past or present). Moreover the Bis would be paid directly to each individual citizen, not through the employers.

The main labour-market advantages of BI are thought to be the following:

- Alleviation of unemployment
- Individual assessment units
- Improved work incentives
- Income maintenance during study and training/re-training
- Improved labour market flexibility
- Tangible recognition of the value of unpaid work

Nothing in life is perfect, and fears were expressed that BI might operate as a wage-subsidy for low-paying employers, and might also institutionalise dual labour markets, thereby trapping people in lower-paid, insecure jobs. A national minimum wage (expressed in hourly terms) was thought by some to be the best way of avoiding these possibilities. Others took the view that minimum wages would keep people with low earnings potential out of the labour market.

The underlying aim of BI is to enhance autonomy and choice, thereby helping to prevent (rather than just relieve) poverty. To maximise its effectiveness, BI would need to be introduced slowly, as part of a wider package. At first the PBIs would be very small — perhaps £11-5:12 a week at 1990 prices and incomes — for which reason they are referred to as Transitional Basic Incomes (TBIs). The wider package would need to include improved training and further education; increased and improved child-care provision for working mothers; and policies to combat prejudice — for instance racism, sexism and ageism. Although the details of any particular BI package require careful working out and are often controversial, most of the group agreed that BI has important advantages by comparison with reform within the existing system.

## 1 DISENTANGLING THE ISSUES

For more than two decades there has been mounting concern about the labour market effects of Britain's Beveridge-style social security system and the systems of direct taxation (income tax and national insurance contributions) by which it and other government programmes are financed. The main causes for concern are high unemployment alongside chronic skill shortage; low pay alongside low skills and low productivity; unequal opportunities, especially for women, people with disabilities and ethnic minorities; and the web of tax and benefit disincentives generally referred to as the poverty and unemployment traps.

Repeated attempts to remedy the situation have proved disappointing. Successive governments have tinkered with the benefit system and have increased rather than reduced the relative burden of taxation on the working poor. Today, on the New Right, it is fashionable to pin the blame for failure on state-financed social security *per se* and to conclude that privatisation of social security (in other words a residual, or means-tested, welfare state) is the only answer. But this conclusion dodges the question why social security was introduced in the first place. Naturally the balance between wealth creation and poverty prevention is a delicate one, but a social security system that promoted labour market flexibility and the acquisition of skills would add to wealth creation — it is when the opposite occurs that things go wrong.

This paper examines the labour-market implications of a radically new approach to poverty prevention based on integration of the systems of social security and personal income taxation. In return for abolition of all (or almost all) existing, State-financed cash benefits, and all (or almost all) existing income tax allowances, every legal resident would be automatically credited, every month, with a tax-free, non means-tested *Basic Income*, and would pay tax on all (or almost all) their other income. This Basic Income (BI) resembles the *Citizen's Income* accepted as party policy by Britain's Liberal Democrats in March 1990 (Liberal Democrats 1989).

The purpose of this paper is to disentangle the labour-market implications of BI. Two main questions arise:

- (1) Would the introduction of a BI system be more or less likely than reform within the existing tax and benefit systems to:

- (a) Protect people with low earnings potential against the labour market consequences of social, economic and technological change?
  - (b) Help them respond to it?
  - (c) Promote the competitiveness of British industry?
- (2) What are the general principles upon which a transition to BI is most likely to be acceptable to workers, potential workers, employers and unions?

## 2 BI IN A NUTSHELL

### (1) Defined

BIRG defines Basic Income as follows:

*A Basic Income scheme would phase out as many reliefs and allowances against personal income tax (IT) 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.*

*BI would enhance individual freedom; would help to prevent poverty; and would help to end the poverty and unemployment traps, reduce unemployment and create a less divided society (BIRG 1989)*

In para one the emphasis is on *unconditionality* and *individual assessment units*. No contributions, no earnings rules, no availability for work rules and no cohabitation rule. Wives and children treated as equal citizens. Benefit as a platform on which all can build (through work or savings) without red tape.

At first glance BI looks incredibly generous, but unlike the Heath Government's Tax-Credit proposals of 1972 (with which it is sometimes compared) the BI is not additional to existing provisions, it replaces them. For example, assuming a BI of £29 a week, the 1990 state pension of £46.90 would be reduced to £17.90. Most pensioners would be neither better nor worse off, because  $£29 + £17.90 = £46.90$ . But pensioners currently dependent on means-tested Income Support would find themselves lifted off a large chunk of it, and low-income pensioners entitled to Income Support but not

claiming it would gain. In due course, as the BI was increased, most pensioners would be lifted off means-tested benefits entirely. Only then would it be possible for *all* pensioners, instead of just the lucky ones, to be able to reap the benefits (in full) of past savings and current earnings.

In para two of BIRG's definition the emphasis is on *autonomy* and on the *limitations* of BI. Certainly BI would enhance individual freedom. Within reason it would improve incentives and make it easier for claimants to take whatever paid work was available. But BIRG is not claiming a cure-all.

### (2) Paying for it

A BI system would bring together and replace existing expenditures on cash benefits and income tax reliefs. Rationalisation would greatly reduce administrative costs. In 1990-91 the costs, including administration, of the existing system are estimated to reach approximately £112,500 million (see Table 1). Although integration of the tax and benefit systems appears to produce a massive increase in public expenditure (the Bis), this is because of the way in which the Treasury presents the national accounts. The present sharp distinction between cash benefits (public expenditure) and income tax allowances (revenue foregone) conceals the fact that both are effectively transfer payments and both have the same immediate impact on the public sector borrowing requirement.

This point was strongly argued by Richard Titmuss in 1955, in a famous Eleanor Rathbone Lecture:

*Under separately administered social security systems, like family allowances and retirement pensions, direct cash payments are made in discharging collective responsibilities for particular dependencies. In the relevant accounts, these are treated as 'social service' expenditure since they represent flows of payments through the central government account. Allowances and reliefs from income tax, though providing similar benefits and expressing a similar social purpose in the recognition of dependent needs, are not, however, treated as social service expenditure. The first is a cash transaction; the second an accounting convenience. Despite this difference in administrative method, the tax saving that accrues to the individual is, in effect, a transfer payment. *In their primary objectives and their effects on individual purchasing power there**

are no differences in these two ways by which collective provision is made for dependencies  
(Tit muss R. 1955, in Titmuss R. 1958, page 44, BIRG emphasis).

The implication behind the present accounting system is that income tax reliefs (tax expenditures) are 'good' whereas benefits (cash expenditures) are 'bad' — an assumption that requires careful testing. If it can be shown that tax privileges (especially mortgage interest and private pension income tax reliefs) result in a clandestine redistribution of income away from those at the bottom of the income distribution — thereby increasing their tax liability, aggravating the poverty and unemployment traps, and producing upward wage pressures — then the time has come to make a change.

What should matter is not accounting convenience, but equity between different groups in society, and the maintenance of work incentives. To say that high marginal tax rates discourage work effort at the top, but not at the bottom, of the income distribution is clearly nonsensical.

**Table 1: Estimated overall cost of provisions for income maintenance, UK 1990-91**

Cash expenditures	60,000
Tax expenditures	48,500
Costs of administration	<u>4,000</u>

Notes: *Cash expenditures* include all state-financed social security benefits; Department of Employment training grants and allowances; and Department of Education/local authority student grants. *Tax expenditures* include all income tax allowances and reliefs; plus £2,500 million for community charge benefit. *Costs of administration* include non-DSS benefits and collection of income tax.

Of course by no means all the £112,000 million in Table 1 could be made available for the Bis. Some existing expenditures would continue and others could only be phased out gradually. The figures are included here to show the huge scale of existing expenditures. Divided between 57 million inhabitants, £112,500 million works out at £38 per person per week, or £152 for a family of four.

Bis are by definition tax-free and without means test, and are paid for by charging income tax on all (or almost all) other income.

Taxation of all other income (which widens the income tax base) and deduction of the BI amounts from existing social security benefits are fundamental principles of all British BI schemes — and also the way they are paid for. When measuring the effects of any particular BI scheme on income distribution or work incentives, it is important to remember to deduct the extra income tax paid and the amounts of existing benefits foregone (often means-tested benefit) *as well* as adding in the Bis received. Ideally, in order to minimise the number of losers (and make the scheme politically acceptable), most people would break even. Only those at the bottom, especially families with children and people with disabilities, should gain.

This is hard to achieve but not impossible. As with any tax or benefit reform, the dividing line between gainers and losers can be positioned according to the policy-makers' choice. But because BI is assessed on the individual instead of the family, women and young people stand to gain more than men and better-off older people. Another difficulty is to avoid unintended gains for some groups, especially where wealth is high in proportion to income. But with a comprehensive income tax this, too, could be achieved.

The new income tax replaces existing income tax (IT) and national insurance contributions (NICs). It could also replace capital gains tax (CGT) and it could also incorporate a wealth tax. It would be payable at the same rate/s whether the income was earned or unearned, *but* the first slice of earned income would almost certainly be tax-free. This modification helps to increase work incentives at the point of entry to the workforce and assists the Inland Revenue with tax collection.

The tax rate would depend on the BI amounts, on how many of the non-personal IT reliefs (eg for mortgage interest and private pensions) were phased out, on the future of the State Earnings Related Pension Scheme (SERFS), and on the state of the economy (income tax base). That is why the labour market effects of BI are so important.

### (3) Administration

Ideally, administration of the Bis would be kept separate from the rest of the government's accounts. Rhys Williams and Parker have suggested an independent *Transfer Income Account (TIA)* (Rhys Williams B. 1989 and Parker H. 1989). The Liberal Democrats call it a *Tax Transfer Department (TTD)* (Liberal Democrats 1989).



With BI it becomes possible to capitalise on micro-electronics and take income maintenance forward towards the cashless economy. For the banking system, BI presents an exciting challenge. At central government level the TIA would be responsible for crediting the Bis (through the banking system) and collecting the new income tax (through the Inland Revenue). Each month the TIA would send to the Bankers' Automated Clearing Services (BAGS) the BI information for every legal resident. This would be done using magnetic tapes or discs, or by on-line data transmission. BAGS would process the information and pass it on to the appropriate settlement banks, who would credit their customers accordingly. Almost everyone nowadays has access to a bank or building society account (IBRO, 1985, quoted in Parker, H., 1989 p 349) and children could be credited through the bank accounts of their parents. For the very small minority of adults without bank accounts special provisions would be made.

It is sometimes suggested that the Bis should be credited through the employers, but this proposal is rejected on three main counts: first to protect the privacy of employees, second to avoid difficulties when people change jobs or have more than one employer, and third to make sure that non-earning spouses and mothers receive their Bis direct. It follows that, assuming a flat rate income tax, the employers' involvement would be restricted to sending x% of payroll to the Inland Revenue — an immense saving in administrative costs by comparison with the existing system. Earned-income tax relief, if it were part of the scheme, could be credited to each person's bank account by the TIA on receipt of PAYE. Self-employed people would be taxed on their profits, as now. Administered in this way employers would know nothing about the BI entitlements of their employees, which is not their business anyway.

#### (4) Full, partial or transitional BI?

In BIRG a distinction is drawn between three categories of BI:

- **Full Basic Income (FBI)** is sufficient to cover *all* basic needs (however assessed) and replaces *all* existing benefits and *all* income tax reliefs. The tax and benefit systems *are fully integrated*, that is to say the same administrative regulations (assessment unit, definition of income, accounting period ) are applied from top to bottom of the income distribution. Since everyone receives a BI and virtually everyone pays tax, the old, divisive distinction

between taxpayers and beneficiaries fades away. What matters henceforth is that net tax collected from those who pay more in tax than they receive in BI matches *net* BI credited to those who pay less in tax than they receive in BI.

FBI sounds attractive and might one day be feasible, but at present it would require a tax rate on all other income of at least 70%, and is therefore unacceptable.

- **Partial Basic Income (FBI)** is not enough to live on, except perhaps for non-householders. Some existing benefits have to be retained and the system would need two or more administrative components, of which *only the BI component would be fully integrated with the new income tax.*

FBI is less expensive and less redistributive but more flexible than FBI. The target FBI amounts chosen by Rhys Williams (1989), Parker (1989) and Vince (1983) — the latter for the then Liberal Party — were half the rate of Supplementary Benefit/Income Support for a married couple, with supplements during old age and disability. Assuming a FBI of £28.80 (cf Income Support in 1990 for a married couple of £57.60) and FBI supplements sufficient to bring total entitlement during old age/ disability to one-third average earnings (the traditional TUG target for a single person's pension), Parker estimates a flat-rate tax rate in the range 35-45%. The lower bound assumes abolition of all income tax allowances and reliefs, the upper bound assumes retention of mortgage interest and private pension tax reliefs (Parker H.

1989. Appendix 1). Note that a tax rate of 35% compares with 25% (IT) plus 9% (NIC) at present.

- **Transitional Basic Income (TBI).** Neither an FBI nor a FBI could be introduced at a stroke; the redistributive effects are too large. For this reason, there is increasing interest in transitional schemes (Atkinson A.B. and Sutherland H. 1988, Liberal Democrats 1989, Atkinson A.B. 1989, Bowen A. and Mayhew K. 1990. Rhys Williams B. and Parker H. 1989). These schemes cash out the personal IT allowances (including the new married couple's allowance) and replace them with very small TBIs of £10-12 a week. Each person can earn about £20 a week tax-free, and some schemes include tax reliefs for work-related childcare. Child benefit becomes a TBI for children and with most schemes is increased. Although the TBIs are very small they come close to half the allowances payable on Income Support.

*For the purposes of this paper, unless otherwise stated, the from, now on concerns Partial Basic Income (FBI or HI for short), and the Transitional Basic Incomes (TBIs) that would lead to it.*

## (5) Six fundamental changes

Summing up, we can see that BI (whether full, partial or transitional) involves six fundamental changes, of which the first two are the key ones, the others being largely consequential:

- **The basis of entitlement becomes legal residence.** Everyone gets a small independent income, whether or not they are in paid work.
- **The unit of assessment becomes the individual.** There is complete symmetry between men and women, married and single.
- **All earnings rules abolished.** The black economy of welfare is decriminalised.
- **Availability for work rule abolished.** Full-time trainees and students become eligible for income maintenance.
- **Unconditional and easy access.** Take up (as with child benefit) would reach nearly 100%.
- **Living standards of the poorest linked to living standards generally.** BI would not be indexed to either earnings or prices, but would be *linked* to earnings through the income tax base.

## (6) Quantifying the effects of BI

From research carried out at the London School of Economics it is clear that a FBI would take many years to implement. This is partly for technical reasons (eg computerisation), partly to soften the effects of reorganisation within the civil service (abolition of the DSS), partly to allow time to phase out the non-personal income tax reliefs, and above all to soften the redistributive effects of BI, which would be much larger than is generally assumed (Atkinson A.B., 1989).

The time lag necessary to introduce a BI system makes it extremely hard to estimate its labour market effects. Although we can be reasonably certain about demographic change between now and the

year 2000, it is much more difficult to estimate the income tax base. Moreover both FBI and TBI involve changes (eg abolition of private pension tax reliefs) that do not show through in the current generation of tax-benefit models, because not all the information about them is collected for the Family Expenditure Survey. So it is impossible to estimate their redistributive effects in full, even assuming that they were introduced immediately. Which is another reason why the Liberal Democrats, and most people working in this field, have become more interested in TBI schemes, since these can be put through existing tax-benefit models with reasonable confidence.

The models currently employed for measuring the costs and redistributive effects of tax-benefit reform use Family Expenditure Survey data — for instance *Taxmod*, written by Professor A.B. Atkinson and Holly Sutherland at the London School of Economics. Taxmod can estimate the redistributive effects of a TBI scheme across the whole population, and can also measure some of its incentive effects (Atkinson A.B. and Sutherland S. 1988 b, and Parker H. 1989, Appendix 1). Another useful model (*Taxben*) calculates the effects of policy changes on the net and disposable incomes of selected hypothetical families. Because Taxben prints out the detail of each component of disposable income (including means-tested benefits), it is particularly useful for monitoring the likely incentive effects of change. It can be used for all types of BI scheme, but (unlike Taxmod) the effects cannot be grossed up for the population as a whole.

## 3 FALSE CLAIMS

Basic Income is not a new idea, but it comes in many forms. In Britain the first costed proposal was put forward by Juliet Rhys Williams in 1942, as an alternative to the Beveridge Plan, which she said would damage work incentives and lead eventually to direction of labour (Rhys Williams J. 1942). In 1972 it re-emerged under the Heath government as Tax Credits (Treasury and DHSS, 1972). And during the 1970s it was the subject of two investigations (this time as Social Dividend) by Nobel prize-winning economist James Meade (Meade J.E. 1972 and 1978). Since then it has been considerably refined. In 1982 the then Liberal Party submitted recommendations for a Tax-Credit system with individual assessment units, and the late Sir Brandon Rhys Williams MP (son of Juliet Rhys Williams) submitted proposals for a modified Basic Income or *Basic Income Guarantee* to

a Sub Committee of the House of Commons Treasury and Civil Service Select Committee (House of Commons 198:5). In 198/1 the *Basic Income Research Group* (BIRG) was formed under the auspices of the National Council for Voluntary Organisations, to research all aspects of reform along Basic Income lines, and in 1986, at the first ever international conference on Basic Income, delegates from fourteen European countries set up a *Basic Income European Network* (BIEN).

This wealth of interest has disadvantages as well as advantages. In the literature about BI the use of terminology is confused (and confusing), and the claims made concerning its labour market effects tend to be speculative and misleading. Over the years BIRG has developed a coherent definition of BI but elsewhere it is regularly lumped together with negative income tax (NIT). The resulting confusion, upon which BI opponents do not hesitate to capitalise, leads many people to conclude that the labour-market effects of BI would resemble the (alleged) effects of the North American NIT experiments of the 1970s. Workers with low earnings potential, they say, would reduce their labour supply, especially married women. As will be argued later, this would not necessarily be a bad thing — the point being to give people more choice — but in any case the result of the North American NIT experiments do not necessarily apply to BI.

The principal characteristics of BI and NIT are summarised in Table 2 (see also Parker, H., 1989 Chapters 9 and 10, and Walter, T., 1989 pp 20-22). Unlike existing social security systems, BI and NIT both take legal residence as the basis of entitlement — a revolutionary change — and both dispense with the contributory principle, all earnings restrictions, and (in most cases, but see Minford P. 1983 and 1985) the availability for work rule. In theory both systems withdraw benefit through an integrated tax/benefit system, but in practice, for administrative reasons, it is unlikely this could be done with negative income tax. As the Table shows, administration of the two systems is dissimilar. BI is credited automatically, on an individual basis, in advance, and is withdrawn afterwards at the rate of income tax payable by the whole community. Negative tax is awarded after proof of need, on a family or household basis, and is withdrawn at rates that are higher (often considerably higher) than the rates of positive tax levied on everyone else.

With either system the tax/benefit authority has two distinct functions — tax collection and benefit delivery. With BI, both

functions can be fully automated and fully integrated, because the administrative regulations (e.g., the assessment unit, definition of income and accounting period) are the same whether the individual is a net beneficiary or a net taxpayer. With NIT the positive income tax can be automated, but delivery of the NIT resembles the most labour-intensive parts of the existing social security system — albeit on a far larger scale. With NIT harmonisation of administrative regulations for taxpayers and beneficiaries is most unlikely. Certainly it was not the case in the North American experiments of the 1970s (Parker, H., 1989 pp 149-51).

**Table 2: NIT and BI compared**

System characteristics	Negative income tax	Basic Income
Basis of entitlement	Legal residence Proof of need	Legal residence
Withdrawal system	Income tax (?)	Income tax
Assessment unit	Family/household	Individual
Payment method	In arrears Proof of need	In advance Automatic
Administration	Unified tax-benefit system	Integrated tax-benefit system
Income tax rates	Declining	Flat rate/ progressive

The North American experiments highlighted the administrative complexities involved in the definition of apparently straightforward concepts like "the family" or "family income". For example, families participating in the Seattle-Denver experiment (SIME-DIME) were expected to fill in each month an *Income Report Form* (IRF) seven pages long. If they did not submit the IRF on time their NIT payment was either delayed or not paid at all (Christophersen 1983, Chapter VI).

These differences, especially the unit of assessment and the benefit withdrawal schedule, have different labour market implications. The amount of NIT payable depends on the combined income of all the family (or household). If the wife, son or daughter of an unemployed father goes out to work the family's NIT payments are reduced — a clear disincentive to self help. The degree of disincentive depends partly on the rate at which NIT is withdrawn. In 1981, Milton

Friedman recommended a maximum NIT taper of 50%, (Friedman M. and R., 1981). and the North American NIT experiments used tapers varying between 30% and 80%. In Britain Patrick Minford has recommended 70% (100% for low-income families with children), and the Adam Smith Institute has recommended 90% (Minford I. 1983 and 1985, ASI 1984).

With BI the assessment unit is the individual, as a result of which each family member can build on his/her BI by doing paid work, without any of the others losing out. From which it should not, be inferred that a BI would automatically remove the unemployment and poverty traps — it would not. In practice the labour market effects of BI would depend on the details of the particular scheme introduced.

From Table 2 it is nevertheless clear that the effects of BI are unlikely to resemble those of the North American NIT experiments — the difficulty is to find out what they would be. The nearest existing equivalent to BI is child benefit, which neither discourages mothers from doing paid work, nor has a 'subsidy' effect on wages (two of the main accusations levelled at BI) — although this would not necessarily be true if child benefit were not so small. National Insurance widowed mother's allowance and widows' pensions are also in some ways similar to BI. Although entitlement depends on contribution record, once in payment widows can use these benefits as a base on which to build through paid work, because there are no earnings rules. Far from keeping widowed mothers out of the labour market, widowed mother's allowance and child benefit seem to act as a platform for paid work, although the number of working-age widows in the FES and GHS samples are too small to be able to draw firm conclusions.

The fact is that at this stage nobody can be sure what the labour-market effects of BI would be. Although in theory it should be possible to obtain broad indications using econometric and computer analysis, in practice this is not the case. Attempts to incorporate BI in the 'income/leisure choice' paradigm that underlies most of the work of economists in this area are not particularly helpful. Moreover the accuracy of all the models depends on the accuracy of the data fed into them: when short of reliable data, some programmers feed in weird assumptions, in which case the exercise becomes at best tautological and at worst misleading. Additionally there are few (if any) labour-market models that look beyond the immediate effects of change.

Take a simple example. In 1985 Richard Blundell and Ian Walker developed a computer model which indicated large-scale withdrawal by married women from the labour force, if a BI equal to half the then rate of Supplementary Benefit for a married couple were introduced (Blundell R. and Walker I., 1985). But at a BIRG seminar in 1988 Ian Walker explained that the model had been fed with assumptions based partly on the North American NIT experiments, and did not take account of the longer-term effects on women's pay and conditions if large numbers of women withdrew from paid work.

Some BI enthusiasts claim that BI would *remove* the unemployment and poverty traps, but this claim is also untrue. A full BI, requiring a tax rate on all other income of perhaps 70%, is just as likely to institutionalise the traps. A partial BI, requiring additional, income-tested (or means-tested) support for people on low incomes, could have beneficial effects, but could also be similar to (or worse than) existing systems, depending on the detail of the scheme. A transitional BI, as its name implies, is no more than a move in the chosen direction. It follows that each set of proposals requires detailed analysis using pre-selected criteria, e.g. marginal tax rates and replacement ratios (Parker 1989, Chapter 18).

Other BI advocates, for example the late Keith Roberts, have claimed that BI would *remove* unemployment, on the assumption that people with low earnings potential do not mind how little they earn so long as they have enough for survival (Roberts K. 1982). Statements like this have led some people to conclude that BI would aggravate the problem of low pay, and subsidise inefficient employers. BI, they therefore argue, is unacceptable unless accompanied by a national minimum wage.

Tony Walter's approach is different again. In *Hope on the Dole* (Walter, T, 1985, chapter 11) he argued that BI would enable some currently unemployed people to find paid work, while at the same time permitting some currently employed people to leave the labour market — thereby creating a happier society, in which those who have paid jobs and those who do not are in those positions by choice.

BI would mitigate the impact of unemployment, of that there is little doubt, because unemployment would no longer have the distinct, stigmatised social status it has now. Everyone would receive their BI without the stigma and anxiety associated with applications for Income Support. Another argument says that BI would draw unemployed people into work by making it easier for them to take

lower paid or part-time jobs. It would do away with earnings rules, and would therefore reduce, though perhaps not eliminate, the poverty trap. Lower paid workers would rely less on means-tested benefits and more on their Bis, which they would keep no matter how much they earned. Several 'Green', or 'Greenish', writers have argued that a BI would promote work sharing to the advantage of those currently without work (e.g. Robertson, J., 1985). This it is supposed to do through the 'income effect' experienced by those wage earners whose BI was higher than the extra taxes they paid to finance it. The income effect, according to this argument, would result in a reduction in the number of hours per year offered by net beneficiaries of the system, which in turn would result in more vacancies for the unemployed. However, given the likely magnitude of BI payments, this effect is likely to be negligible or non-existent.

Perhaps the most difficult labour-market question of all concerns the implications of BI for the work ethic. "He who will not work shall not eat," Prime Minister Margaret Thatcher reminded the Church of Scotland in 1988, forgetting (or so it seems) that 'work' in St Paul's time did not refer exclusively to waged labour, but nevertheless expressing a widely held view. The idea that people should get anything for doing nothing runs up against deeply-held convictions, which have nothing to do with party political affiliations, but do have particularly strong roots in the trade unions and in certain sectors of the women's movement.

Nobody who tried costing BI schemes during the early 1980s, when unemployment took off, would condone tax/benefit changes that jeopardised wealth creation by encouraging large-scale 'opting out'. On the other hand 'Green' perspectives force us to re-examine the whole concept of wealth creation in a dangerously polluted world. Does a work ethic that developed in response to the early stages of industrialisation have continuing validity in post-industrial societies — or does it require modification? Is it not time to give formal recognition to the importance and hidden economic value of unpaid work?

#### 4 LABOUR MARKET TRENDS

By changing the basis of entitlement from out-of-work status to legal residence BI cuts the traditional link between incomes and paid work. It opens the way for a redefinition of work (to include unpaid work), and it prepares the ground for a radical re-structuring of income

distribution in line with economic, technological, ecological and social change. This raises three main questions:

- Can the existing tax and benefit systems be adapted to meet labour-market change — without either creating an underclass of people chronically dependent on state benefits, or introducing compulsory workfare?
- What are the labour-market advantages of BI, would BI on its own provide an adequate remedy for poverty and unemployment, or are other forms of intervention (eg skill training and childcare) also necessary?
- Can the introduction of a BI be reconciled with the traditional concept of a citizen's duty to work in the market sector of the economy?

The existing benefit system descends directly from Beveridge, who based the whole of his 'Plan' on the assumption that there would be full employment - although experience shows that Governments can soften the impact of unemployment, but cannot prevent it. Some of the earliest protagonists of BI (or similar) came to it through their apprehensions concerning "technological" unemployment. As long ago as World War 1, the sheer speed of industrial development caused two former soldiers, one French and one British, to question the continuing viability of old-style labour markets. In France Jacques Duboin, a veteran of Verdun, watched the newly manufactured tanks succeed where echelon after echelon of men had died, and argued passionately for institutional change that would uncouple incomes from paid work. He proposed that each country's national income be shared equally between its citizens, with a tax of 100% on all other income. In Britain Major C.H. Douglas, a Scottish engineer and accountant, proposed that Government increase consumer demand by paying a national dividend of £5 a month (about 30% of average earnings) to every householder, financing it by increasing the money supply (sic) (Parker 1989, Chapter 9).

Notwithstanding their eccentricities, Duboin and Douglas were on to something important. Some seventy years later the Nobel prizewinner James Meade still acknowledges the stimulus of Douglas's work. At the European Centre for Work and Society in Maastricht, its director Gabriel Fragniere has argued for a new definition of work that will encompass 'any human activity which serves a social purpose' (Fragniere, 1987). And in his preface to Guy

Standing's ILO Working Paper No. 23, Ralf Dahrendorf wrote: "European unemployment today is not the same as that of the past and therefore requires more than either the current ('supply-side') or the old ('Keynesian') medicine" (Standing G., 1988).

In Agathotopia (Meade 1989), and in BIRG Bulletin No. 10 (Meade 1990), James Meade has written about the redistributive and labour market implications of technological change:

In a competitive market structure the basic distribution of the product of industry between the yield on property (interest, rent, profit) and the return on work (wages, salaries and other earnings of labour) will be determined by market forces. If there were much labour seeking employment against a limited capacity of capital equipment, if new technologies were labour-saving rather than capital-saving, and if consumers demanded products which required much capital and little labour to produce, the return on capital would inevitably be relatively high and the earnings for labour relatively low. The competitive market structure can take many forms: capitalist companies with or without profit sharing or employee share ownership schemes, labour-managed cooperatives, or various forms of labour-capital partnership. The choice of such institutions can have some effect on the distribution of the product between labour and capital; but in a fully competitive regime this effect will be secondary. The basic distribution will be set by the basic market conditions. This presents us with a fundamental policy problem. To secure useful employment in a competitive market setting for the mass unemployment faced by the restricted manufacturing capacity left over by the Thatcher regime, may well involve a substantial reduction in the return to labour relatively to the return on capital, a development which could be intensified if modern technologies turn out on balance to be labour-saving and capital-using. If the merits of a competitive system are to be preserved, and at the same time excessive inequalities are to be avoided, we need to consider radical ways in which part of the high return on capital can be used to supplement the earned incomes of the representative workers (Meade 1990).

What Meade is talking about here is not so much mass unemployment, but insecurity of employment and insecurity of wages in greatly changed labour markets. Those changes were neatly summarised by Michael O'Higgins (OECD) in 1988, in a paper

presented at a colloquium of the European Institute of Social Security:

Many social security systems were designed on the assumption that social insurance contributors would generally be males in steady, full-time organised employment with economically inactive wives. The world we now face is one in which:

- the labour market participation of married women has increased sharply;
- part-time employment (and its variants such as job-sharing) is increasingly common;
- a significant proportion of the labour force is likely to spend some time unemployed;
- the age of entry to work has increased;
- job and career changes will be more frequent throughout a working life (with a possible associated increase in geographical mobility);
- a greater proportion of the labour force may be engaged in self-employment or out-contracted work;
- along with some reductions in the formal age of retirement, an increased proportion of the work force is taking early retirement, or at least an early withdrawal from active labour market participation (O'Higgins M., 1988).

By full employment Beveridge meant "more jobs than idle men", but today, even in countries with low rates of officially recorded unemployment, there are falling proportions of full-time jobs for men, and rising proportions of part-time jobs for women. On present trends, Charles Handy estimates that by the turn of the century the UK paid workforce will be the same size as now (26 million), but the number in full-time jobs will have declined from 16.3 million to 13 million, while those in various forms of part-time or temporary employment and *self* employment will also stand at 13 million (Handy C., 1990, p 24).

How many hours a week will (or should) constitute a full-time job? If history is anything to go by, the number will go steadily down.

Again Charles Handy has calculated that, even for those in 'life-time employment' career jobs, average paid work-time will be 50,000 hours for today's 21 year olds, compared with 100,000 work-time hours for Handy's generation (Handy C., 1990, p 34). BI could promote work-sharing and a much wider range of choices, taking account of both paid and unpaid work.

Table 3, using government statistics, shows that between 1984 and 1989 the number of people in employment or self-employment rose by 2½ million, which looks good, but within that total the number of full-time jobs for men increased by only 209,000.

**Table 3: Changes in employment and employment status, 1984-89, Great Britain, spring each year, people aged 16 and over**

Employment status	Estimated changes 'OOOs
<b>All in employment</b>	<b>+ 2,575</b>
<b>Full-time employees</b>	+ 982
Men	+ 209
Women	+ 773
<b>Part-time employees</b>	<b>+ 619</b>
Men	+ 120
Women	+ 499
<b>Full-time self-employed</b>	<b>+ 710</b>
Men	+ 586
Women	+ 125
<b>On government employment and training programmes</b>	<b>+ 166</b>
	+ 98
	+ 44
	+ 55

Source: *Department of Employment Gazette*, April 1990, page 202, Ikble 4 (1989 *Labour Force Survey* preliminary results).

The indications are that much of the growth in jobs is concentrated at the top (for instance in financial and professional services) and at the bottom (in casual, temporary and part-time work); yet it is in the middle that most people would traditionally expect to find work. Some labour market economists are concerned that the growth in jobs is disproportionately concentrated in insecure, peripheral and low-paid work, to the extent that they now draw sharp distinctions

between different parts of the labour market. The first distinction is between 'core' and 'periphery' jobs — the former well paid though not always full-time, and the latter low paid and insecure, i.e. 'dud'. A second relevant distinction is between 'primary' and 'secondary' jobs, in a 'dual' labour market where workers in the secondary labour market find it difficult to transfer to the primary labour market — even if they improve their qualifications and experience. So they remain stuck in 'dud' jobs (or no jobs) for year after year. Not surprisingly, the present tax and benefit systems are thought to encourage this trend.

Of course there have always been 'dud' jobs, and it would be difficult to abolish lower-paid work without interfering with individual choice. The TUC solution is to introduce a national minimum wage and increase skills through skill training. Others think that introduction of a BI would help people with low earnings potential by giving them more bargaining power and more choice, although the scale of this effect would depend on the BI amount. The larger the BI the greater the bargaining power, but also the higher the tax rate. So bargaining power has to be balanced against incentives to work and incentives to hire labour.

Another worrying feature of present trends is the move towards greater compulsion for people with low earnings potential to take whatever work is available, on terms that are often very unfavourable, and in preference to study or skill training. A recent survey by Simon James, Bill Jordan and Helen Kay of Exeter University on a local council estate highlights the problems faced by workers and would-be workers in today's labour market (James S., Jordan B, and Redley M., 1990). Tax-benefit models like that used to produce the annual DSS Tax/Benefit Model Tables (which tabulate net and disposable incomes for hypothetical families in hypothetical situations and at different levels of earnings) presume that workers are in a position to calculate the advantages/disadvantages of different choices. But in practice, for the people in the Exeter study, work and earnings were too unpredictable. The best such workers can do is to manage risks, and in the Exeter study the standard way the men did this was to take illegal cash work while claiming benefit, but to come off benefit once their earnings rose above a certain point. For women who are the spouses or partners of men in this situation, the task of calculating advantages and disadvantages is even harder. In the study, women with partners who were long-term unemployed did not take paid work other than on a very short-term, casual basis, because of the well-known disincentive effects of the benefit system.

However there was some evidence that women trapped in this situation (when their partners are doing quite a bit of illegal cash work) try to 'force their hands' by themselves taking part-time regular employment, thus making the men come off benefits and become 'self-employed'. This new status is very precarious. In two examples in the Exeter study the man started to claim again (a) when the woman lost her job, (b) when childcare was needed during the summer holidays.

To sum up, most of the men in the Exeter study behaved as though there was already a FBI system. They used Income Support as an unconditional benefit and those who became self-employed converted it to a Basic Income (by not declaring their new status). They also awarded themselves very generous tax credits by not paying tax unless their earnings were above a notional amount. The women, on the other hand, having no such FBI, were trapped in unpaid roles while their partners were claiming — gaining limited autonomy only through part-time employment when their partners became employed or self-employed.

Although the existence of rapid labour market change is generally accepted, there is less agreement about its causes, especially the extent to which it is a function of the tax and benefit systems. Opinion is divided between those who think full employment (defined as a full-time job for all who want it) is gone for ever, and those who think it would return (without inflationary pressures) if the tax and benefit systems were changed.

Those in the first group go for job-sharing and reductions in working time, and see BI as a useful instrument towards those ends. BI, they say, would encourage people to work less overtime and would make part-time working more popular. Shorter hours for those with jobs would result in more vacancies for the unemployed, as well as more time for parenthood, study and other socially useful forms of unpaid work.

Those in the second group, while accepting that working time is bound to come down, stress the need for Britain to become more competitive in world markets, and see BI as an instrument towards that end. They emphasise the correlations between labour-market change and the existing tax and benefit systems. Women do part-time work because they (and their employers) want to avoid paying NI contributions, and also because of the shortage of good quality childcare at affordable prices. Unemployment results partly from lack

of skills, which in turn correlates with a benefit system from which most students/trainees are excluded, but unemployment is also a function of high unit labour costs (as a result, for instance, of national insurance contributions and disproportionately high tax liability for the lower paid), and of inadequate and fragmented child support.

The existing tax and benefit systems increase the price of unskilled labour in the UK by comparison with third-world labour, and with machinery. In theory the lower paid could be lifted out of tax liability within the existing tax/benefit systems, by unifying NI contributions with income tax, raising income tax allowances and increasing child benefit. But that would involve abolition of the contributory principle; moreover the increased tax allowances would only help those with the money to set against them. Child benefit, by contrast, helps all children, which is why BI advocates want the equivalent of child benefit (i.e. BI) extended to adults.

When discussing unemployment it is important to keep a sense of perspective. Although the return of mass, long-term unemployment in the UK did not take off until 1980, there is clear evidence of a secular upward trend from the mid-1960s onwards. Even today, however, temporary and casual work is still not the main component of the labour market, moreover the increase in self-employment is at least partly a response to the tax system, i.e. a tax-minimising exercise. Good jobs and bad jobs have always existed, what may be new is the emergence of a gap in the middle of the labour market, as the structure of jobs changes. That gap is much more structurally based than it used to be — it does not go away even when the economy is booming.

Gradually, the argument goes, the whole structure of jobs is changing. More good jobs and more dead-end jobs are appearing — but those in the middle are being eaten away. Moreover even the dead-end jobs require more ability than they used to — so a low IQ is coming to resemble a form of disability. Mechanisation and computerisation threaten semi-skilled manufacturing jobs and routine office jobs, and break the continuity of the skill range. They prevent mobility between 'good' and 'bad' jobs through step-related skills.

Table 4 shows changes in earnings distribution and labour market composition since 1979. These changes have major implications for the benefit system. If things continue as they are, for instance if benefits remain indexed to prices instead of earnings, low earners are going to lose out — especially when they become pensioners.

**Table 4: Changes in earnings distribution, 1979-89**

	1979	1989
<b>Men</b>		
Top-decile male earnings as % of median male earnings	156.9	179.9
Bottom-decile male earnings as % of median male earnings	66.0	58.5
<b>Women</b>		
Top-decile female earnings as % of median female earnings	158.6	180.5
Bottom-decile female earnings as % of median female earnings	69.4	63.1

Source: *New Earnings Surveys*, 1979 and 1989

Assumptions: All industries and services

Full-timers on adult rates

Pay not affected by absence

Today's labour market is also affected by demographic change. Much publicity has been given to the coming shortage of women in the younger age groups. More attention needs to be paid to the decline in the youth cohort — what NEDO has referred to as the 'demographic time bomb'. Simultaneously, and throughout most of the Western world, people are retiring earlier, and are healthier and more active than ever before. Those aged 55-75 (or thereabouts) constitute a new 'Third Age' — still active and able to make a contribution, but no longer in full-time paid work. This is a new phenomenon and there are no models to guide us. One question is: what will they live on? The Geneva Association (which does research for European life assurance companies) is engaged in what it calls the *Four Pillars Research Project* (Handy C, 1990), which distinguishes four components of income:

- State pensions
- Occupational pensions
- Personal savings
- Part-time work

The age of eligibility for state pensions could go up rather than down, and Nigel Lawson's abolition of the pensioner earnings rule may well set a trend. It enables people to build on their pensions through part-time work, and this will grow in importance. Personal savings will

also grow in importance as parents bequeath their homes to their children.

These are just some of the constituents of labour market change that need to be taken into account. Would a BI help? Certainly it would give more independence to those who are trapped at the edges of the new labour market. But the forces causing the split in the labour market are more deep-seated than the nature of the tax and benefit systems, from which it follows that BI on its own is only part of the remedy. Moreover there is a fear, as we shall see, that BI — by subsidising low wages — could become part of the problem.

## 5 IMPLICATIONS OF BI: LABOUR SUPPLY, WAGES AND INCENTIVES

The study group concentrated on three main questions, all of which refer to partial BIs and the transitional BIs that would probably precede them. Each question overlaps with the other two, and for each the answers depend on the BI amount and the tax rate necessary to pay for it:

- What would be the effects of BI on labour supply and unemployment?
- Would the introduction of a BI strengthen or reduce the case for a national minimum wage?
- Is BI on its own a sufficient remedy for the poverty and unemployment traps, or are other forms of intervention also necessary?

### (1) Labour supply and unemployment

It is often alleged that introduction of an unconditional BI would result in able-bodied men and women dropping out of the labour market. Due to the *income effect* of the BI, there would be a tendency for people with low earnings potential to substitute leisure for paid work.

At the margins this is probably true, although the 'leisure' would undoubtedly include unpaid work, from which society as a whole would stand to benefit. The larger the BI the greater the income effect is

likely to be, but the net result for the economy as a whole would depend on whether the BI income effect resulted in shorter working hours (work-sharing), or in greater welfare dependency (no paid work at all). Moreover a BI system would also have other effects, working in the opposite direction.

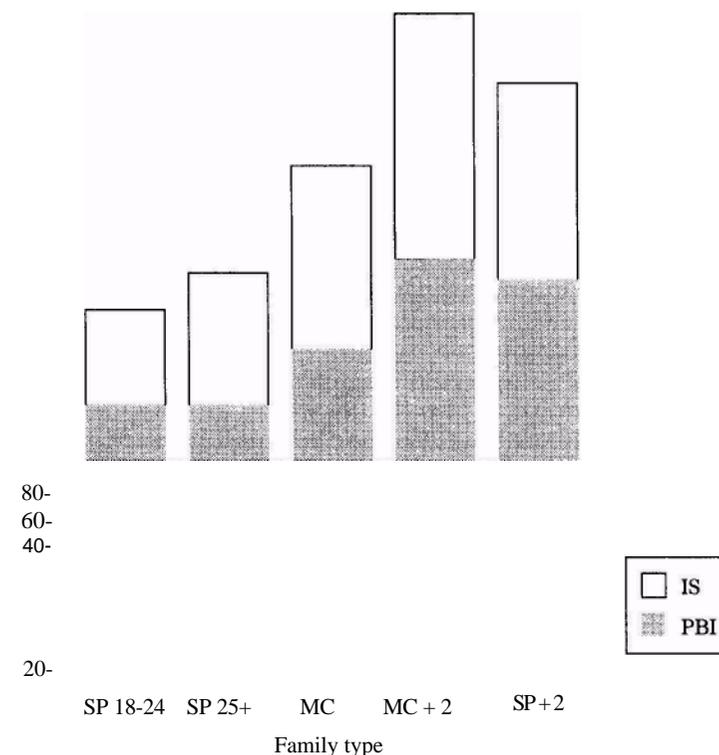
Depending on the FBI amounts and the tax rate necessary to finance them, the gradual removal of all earnings restrictions, the shift in tax incidence away from the lower paid and families with children, the reduction in unit labour costs (e.g. through replacement of employers' national insurance contributions by increased taxation of profits), the automatic provision of income maintenance during training and re-training, and the removal of red tape would all be beneficial. Relatively few of those who dropped out of the labour force would do no work at all. Most would combine paid work with unpaid work, either at home or in the community, although some mothers would wait longer than at present after the birth of a child before returning to the workforce.

During the early stages of transition towards a FBI, the Bis would be too small to have much effect on labour supply, although they would start the ball rolling. The logic behind all transitional schemes is to help claimants get into the paid labour market, by reducing the proportion of their benefit entitlements subject to red tape. Earnings rules and the availability for work rule would continue to operate with residual national insurance benefits and with residual Income Support (IS). But their impact would be progressively reduced as the TBIs came to represent a larger and larger proportion of the total benefit package. The Figure, based on 1988 IS rates and an assumed TBI of £10.00 a week for adults and £7.50 for children, shows how IS becomes a smaller part of the benefit package.

For each family type the two parts of the new guaranteed weekly income (in this case residual IS plus the TBI) come to the same total amount as their previous entitlement. There are no gains or losses because all claimants retain the right to top up their TBIs with residual national insurance (NI) benefit/ IS and/or housing benefit. The idea is that if only a small percentage of claimants chose to forego their right to IS, and preferred instead to build on their TBIs by doing paid work (the first slice of which would be tax-free), expenditure on IS would go down and tax revenues up, thus starting a virtuous circle and making possible year-by-year increases in the Bis (over and above the rate of inflation) until IS could be phased out completely.

**Figure: TBI scheme**

**BIG Phase 1, guaranteed minimum weekly incomes**



*Assumptions:* SP 2 includes one-parent benefit; SP2 and MC 2 children are under 11.  
*Acronyms:* SP 18-24 = single person aged 18-24, SP 25+ = single person aged 25 or over, MC = married couple  
*Source:* Rhys Williams 1989, Figure 9

Once the BI amounts reached IS levels, IS could be abolished, although locally operated safety nets would always be necessary, in order to cater for emergencies, and help householders with high housing costs.

**(2) Wages**

A partial BI would result in people with low earnings potential (unskilled, disabled, or with family responsibilities) being able to accept lower hourly wages (or a shorter working week) than at present, and yet find their efforts financially worthwhile. Their situation would resemble that of national insurance retirement pensioners since abolition of the earnings rule in October 1989. Today's pensioners pay tax on

most of their earnings, but keep their pensions, so even a low wage looks attractive. This is the sort of innovation for which Charles Handy has

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argued on behalf of all 'Third-Agers' (i.e from the mid-fifties

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onwards). By extending it to people with disabilities, to mothers wanting to work close to home at hours of their choosing, and to the unemployed, BI would strike a powerful blow for autonomy and self-reliance. Indeed, for many people the idea that BI would help those at the edges of the labour force re-enter mainstream society is one of its main attractions.

Unfortunately there is a danger that some employers would take advantage of the fact that their labour force had extra income from the state by cutting wages. For some people this danger makes BI unacceptable, unless it is accompanied by a national minimum wage. Not that they are against the increased autonomy a BI would offer, but they perceive a 'payroll subsidy' effect and a danger of increased wage dispersion generally. It would be counterproductive, they say, if the Bis — which are intended as an instrument for income redistribution from 'rich' to 'poor' — ended up in the pockets of inefficient or unscrupulous employers. Similarly it would be counterproductive if the Bis — which are also intended as an instrument for opening the door between primary and secondary labour markets — ended up by institutionalising them.

Thus there exists a complex division of opinion (and sometimes of interests) between those who would welcome any move towards treating employees as individuals — offering them more choice, and including within their pay an element related to individual performance; those (including some unemployed/self-employed, semi-retired and unskilled workers) who want the opportunity to work, with or without a minimum wage; those (including some unemployed claimants) who would prefer to remain out of work rather than compete for very low paid jobs; students and trainees, most of whom clearly stand to gain from a BI; very low paid workers (including substantial numbers of women in ethnic minorities, working at home or in sweat shops) who urgently need the protection of a minimum wage; and better paid 'core' workers (many of them trade unionists) who see little in BI for them and could lose from the redistributive effects of some BI schemes.

The suspicions of trade unionists and groups representing the low paid have been hardened by exaggerated claims on behalf of BI and similar schemes by some 'free marketeers'. In the UK, one of the first to argue for BI in terms of market economics was the late Keith Roberts. He proposed subsistence level Bis accompanied by abolition of all minimum wage legislation, employment protection and redundancy pay:

These things can be counter-productive, for they tend to increase unemployment by discouraging employers from hiring new staff: they defend the jobs of the haves against the possible jobs of the have-nots. In fact the protection afforded by Basic Income should make such controls unnecessary ...

Because everyone would receive the basic subsistence component of income from the State, the labour market could operate freely as the classical economists assumed and as their modern disciples advocate. There would be a positive incentive and opportunity to anyone to work for additional income who wished to do so, without the stigma of the black economy. There would be less reason to resist automation. The government would be relieved of the need to operate a complex, unpopular and increasingly expensive social security system, to subsidise ailing industries and regions or introduce job-creation schemes, and could concentrate on strategic industrial issues, on the balance of payments, and on regulatory aspects such as health, safety and the environment. Firms could compete more freely with their overseas rivals. (*A New Deal for All*, BIRG Bulletin No. 3, Spring 1985)

This is classical, free-market thinking, but it begs many questions. Roberts was talking about full BI (he recommended abolition of all existing benefits), but he never put figures to it, and it was difficult to find out what he meant by a "subsistence income" — whether it would be indexed to prices or earnings, or how much 'positive incentive' would be enough after taking into account the disutilities of work. Nor did he put an upper limit on his tax rate. If the rate necessary to finance an acceptable FBI is 70% or more, then the income effect of the FBI is more likely to increase than reduce wages — except at the very bottom.

Roberts' analysis applies only to full BI. With partial BI the labour-market implications depend on the details of each scheme. In BIRG Bulletin No. 4, Robin Small of the Low Pay unit wrote:

... income security for working people should be provided through a national minimum wage and a national minimum wage should therefore constitute an essential element of a BI scheme. Without it any attempts to replace the existing social security system with a BI system should be resisted. (*A Two-Tier Basic Income, and a National Minimum Wage*, BIRG Bulletin No. 4, Autumn 1985).

That was in 1985. In 1990 the Low Pay Unit is not convinced that BI is the best and most effective method for ensuring decent incomes. In their view, the best way to reform the benefit system is through universal but contingent benefits (e.g. for unemployment, disability and old age) set at realistic levels.

Although the case for or against a national minimum wage is independent of the case for or against BI, it can be argued that a national minimum wage would make implementation of BI much easier. Concern regarding the effects of a BI on wages is widespread. It is important, also, to distinguish between low *weekly* earnings (due to work-sharing) and low *hourly* earnings (due to low pay). If a BI system were introduced without an effective 'floor' to the hourly wage rate, recruits might take jobs at less than existing wage rates, in which case hourly rates towards the bottom of the earnings distribution would tend to fall. If this were to happen, part of the BI budget (paid for by richer citizens for redistribution to poorer citizens) would be appropriated by employers as an unintended payroll subsidy.

The higher the BI the less probable it is that wage cutting would occur. Indeed there is a theoretical level of BI above which total hours worked would tend to fall, as people substituted leisure for (highly taxed) wages — in which case wage cutting would be unlikely. But that level is unlikely to be reached with partial or transitional BI. If PBIs or TBIs were combined with an hourly minimum wage, the emphasis would be on jobs with a low number of hours worked per week rather than low hourly wages, and this might encourage work-sharing.

When discussing the implications of BI for a national minimum wage, it is important to keep the two issues separate. The case for each is stronger today than ever before, and they would probably work well together, but they do not stand or fall together. At present there is a danger that the debate about BI will be submerged by the debate about a minimum wage. During the inter-war years, when Eleanor Rathbone was campaigning for child endowments, the Trade Unions objected on the grounds that family allowances would result in lower wages. In the event, their fears proved mistaken and the argument has long since fallen into disuse. With BI the same argument is reappearing and could well prove equally unfounded. On the other hand, if there were indeed signs, after introduction of a TBI scheme, that wages at the bottom were falling behind, that would be a powerful argument for the introduction of a minimum hourly wage.

Most, EC countries have some form of minimum wage provision, although the details vary greatly and the wage is not always statutory. From the empirical evidence, and contrary to much of the perceived wisdom in Britain, there are indications that minimum wages do not automatically add to unemployment. On the contrary, they can have the opposite effect, by encouraging employers to increase efficiency. High-wage and high-productivity economies tend to go hand in hand (Mowen, A., and Mayhew, K., 1990, Chapter 8).

In their contribution to a 1989 NEDO policy seminar, this is how the TUC summarised the case for a minimum wage:

Low pay is often and rightly discussed in terms of its social implications. However, low pay has an equally important macro-economic dimension. The TUC has consistently argued that low pay is a cause of under-investment in human and physical capital, with implications for growth, industrial competitiveness and employment. The recent increase in productivity in British industry should not obscure the fact that these gains are mainly in manufacturing, and they still leave Britain far behind the level of productivity in the United States, Germany and other advanced industrialised countries. *There are few examples of successful advanced industrialised countries based on a low pay/low productivity economy.* Those European countries with the highest standards of living and the strongest economies are those which have moved forward down the path towards high pay — high productivity economies. The issue is a dynamic one. Countries that grow fast have higher pay levels and higher productivity rates. A virtuous circle is thus engendered with causal links working in both directions

... Low pay is not simply a symptom of Britain's low-productivity industrial structure but one of the fundamental barriers to transforming the economy.

(*LOW PAY — A Trade Union Perspective*, in Bowen A. and Mayhew K. (eds), 1990). BIRG emphasis.)

To sum up, there seems no *a priori* reason why a BI should or should not be linked to a national minimum wage. It would be up to the government of the day, and there are several ways to set about it. The minimum wage could be a fixed proportion of average earnings, and the BI could be a proportion of the minimum wage. Or the BI could be the starting point, with the minimum wage sufficiently far above it to ensure that nobody (or almost nobody) in paid work

needed means-tested benefits. Either way the minimum wage would serve to increase incentives at the bottom, and prevent BI becoming a subsidy to unscrupulous or inefficient employers. Moreover, as the TUC point out in their contribution to the NEDO book quoted above, it is high time for British management to come out of the past, stop regarding workers as so many 'hands', improve their supervision techniques, and give more priority to training.

Why is it then that in some European countries where statutory minimum wages do exist (e.g. the Netherlands) there is discussion about whether unemployed and unskilled workers would not be better served — in terms of inclusion, participation and autonomy — by a FBI system *without* minimum wages? One disadvantage of a national minimum wage (and some would say of collective bargaining too) is that the right of workers and employers to make individual pay contracts is constrained by the statutory wages floor (or collective agreement). Moreover the present direction of events is away from agreements imposed from above, and towards individual rights and responsibilities. Some people support BI as an instrument to accelerate that trend.

This was a question the study group could not resolve.

### **(3) Work incentives, and the need to modify the original BI concept**

In the previous section we discussed the implications of BI for wages. A partial BI linked to a small, minimum, hourly wage could well be the answer, but it would not be the whole answer. In order to sharpen work incentives, especially at the point of entry to the workforce, further modifications to the original BI concept are necessary. For example, instead of making all income except the BI taxable (as originally conceived), the first slice of earned income (at least £20 a week) would have to be tax-free. BI is no panacea, therefore expenditure on it must not be allowed to squeeze other programs. From the point of view of incentives, improved access to good quality childcare also requires a high priority. Indeed, good quality childcare at affordable prices — for all working mothers (and lone fathers) with children below school age, during school holidays, and at the end of the school day — is an urgent priority, with or without BI.

Subject to these provisos, a FBI would improve work incentives for people with low earnings potential by reducing replacement ratios (out-of-work incomes as percentages of in-work incomes); by

widening net income differentials at different levels of earnings (no need for family credit and greatly reduced dependence on housing benefit); and by removing red tape.

In practice the most important of these effects could well be deregulation. Those without direct experience of unemployment tend to underestimate the disincentive effects of an intrusive bureaucracy. Under present law an unemployed person who returns to work loses the right to benefit, as does his wife. If the new job does not last, he has to sign on again, and almost always ends up in debt. Some families where the parents work irregularly find themselves disqualified from Income Support and Family Credit. In spite of the 1988 benefit changes, people with low earnings potential are still caught in the unemployment, invalidity and lone-parent traps. By the time work expenses and the hassle of signing on and off are taken into account, lower paid work (especially irregular work) is not worthwhile, except in the underground economy. These characteristics of the existing system show up clearly in the Exeter survey already referred to (James, Jordan and Redley, 1990).

Unfortunately it is impossible to quantify the labour-market effects of deregulation. As already suggested, a small minority of able-bodied men and women (mainly women) would probably take advantage of BI to drop out of the labour force. That does not mean they would become a burden on society. Some might, but most would use their new freedoms to acquire skills or look after their families — returning to paid work when they had gained qualifications, or when their children were older. Others would become involved in voluntary (unpaid) work, either at home (caring for elderly or disabled relatives) or in the community (Walter, T., 1989, pp 54-56) — for it is one of the great illusions of existing social security systems that work with a market value is the only work worthy of consideration. And in any case, for the great majority, the introduction of BI would simply ease the transitions between different sorts of paid work, at a time of unprecedented labour-market change.

It is mistaken, nevertheless, to suggest that BI offers a magic solution to the unemployment and poverty traps. It does not. Great care would be needed to devise a system that maintained the optimum balance between a whole series of objectives, some of which are conflicting. If the BI amount were too high, the increased incentive at the bottom of the earnings distribution could be more than offset higher up it by a combination of the BI income effect and the tax rate necessary to pay for it. The larger the BI amount the greater the likelihood of some such effect.

Although more people might be in paid work, the number of hours worked could go down significantly. For some people this effect is one of BI's main attractions, because it would ease the labour market effects of technological change — but not if it reduced the income tax base or international competitiveness.

That is the main reason why a full BI is out of the question — certainly so long as it requires a tax rate on all other income of 70% or more to finance it. At the top of the earnings league high tax rates (whether flat-rate or progressive) are a disincentive not just to extra effort, but also to capital accumulation by entrepreneurs seeking to save towards setting up their own businesses in the future. At the bottom, high tax rates drive some workers into the black economy and leave others totally discouraged.

In Britain, most costed FBI schemes take half the rate of Supplementary Benefit/Income Support for a married couple as the adult FBI. In 1990 this would be £28.80. On the basis of earlier costings, PBIs of £28.80 (plus generous supplements for older people, people with disabilities and carers) could be financed by a flat-rate income tax of about 35%, provided the State Earnings Related Pension Scheme (SERFS) and virtually all existing income tax allowances and reliefs (including those for mortgage interest tax relief and private pensions) were closed off (Parker H., 1989, Chapter 19). A partial BI is by definition not enough to live on. Even if the old-age, disability and carers' supplements were sufficient to bring their recipients up to FBI standards, some able-bodied people of working age would still need extra help, and some of that extra would undoubtedly be means-tested or income-tested — thereby re-introducing the disincentive effects associated with high benefit withdrawal rates. But the numbers affected in this way would be far, far fewer than at present — provided the BI amounts for children (including childcare costs) were adequate and especially if there were also a minimum wage.

Even a FBI scheme would take at least ten years to implement. Ibday, the only BI schemes for which detailed costings, distributional and incentive estimates are available are TBI schemes. Here the scale of income redistribution is so small it is hard to see how it could have any impact on wages at the bottom. Of course some people are bound to gain and others to lose; the important thing is to be able to keep the gains and losses small, and to ensure that those who gain need the extra and those who lose can afford to do so. Indeed part of the rationale for introducing Bis slowly is precisely to avoid unwanted side effects. At first not very many people would be lifted out of the

poverty or unemployment traps, but gradually their numbers should increase — along with the BI amounts.

A major disadvantage of the 1972 Tax-Credit proposals was cost, which came about because the proposed tax credits were additional In existing benefits. But this need not be so. Research at the London School of Economics (in the Suntory Toyota International Centre for Economics and Related Disciplines, ST/ICERD), shows it is possible to introduce TBIs at no extra cost to the Exchequer provided the TBIs are deducted from existing benefits. In other words the change is primarily structural, rather than redistributive. The redistributive cfleets of the BIG Phase 1 scheme proposed by Rhys Williams in *Stepping Stones to Independence* (Rhys Williams B., 1988) fit that requirement, as do the schemes described by Atkinson and Sutherland in BIRG Bulletin No. 8 (Atkinson A.B. and Sutherland II., 1988) and elsewhere (Atkinson A.B., 1989, Chapter 17). Few families gain or lose more than £5 a week, and about 25% remain unaffected.

**'ftible 5: TBI scheme: net income gains and losses (1988 incomes, hypothetical families, no mortgage tax relief)**

**Net incomes from gross weekly earnings of:**

	£50	£100	£150	£200
<b>1 Single person</b>				
Kexisting system TBI system	48	81	112	145
<b>2 Single-wage married couple</b>				
Existing system TBI system	49	82	113	146
<b>U. Two-wage married couple</b>				
Kexisting system TBI system	48	88	119	152
	59	92	123	156
<b>4. Single-wage married couple</b>				
t 2 children Kexisting system TBI system		95	125	159
	62	102	133	166
<b>5. Two-wage married couple</b>				
t 2 children Kexisting system TBI system	74	107	138	171
		110	150	183
<b>(&gt;. Lone parent + 2 children</b>				
Kexisting system TBI system	67	113	146	179
	69			

Source: Rhys Williams B., 1989 Table 9

Assumptions: in the case of two-wage couples, the combined earnings come to the totals shown. I >n combined earnings of £100 each spouse earns £50, on combined earnings of £150 and £200 I he wife earns £50 and the husband £100.

With the Rhys Williams scheme (see Table 5), and with the Atkinson/Sutherland scheme, the only people who show substantial gains are single- wage married couples (both with and without children). This is because the wife's (previously unusable) tax allowance converts into cash.

After much research, all the later Basic Income Guarantee (BIG) schemes proposed by Rhys Williams and Parker became modified TBI schemes, as did the Liberal Democrats' scheme for a Citizen's Income (Liberal Democrats, 1989). In 1985, in the BIRG Bulletin article already referred to, Robin Smail of the Low Pay Unit also proposed what amounted to a modified PBI scheme: a two-tier BI, both tiers based on citizenship, one unconditional and the other subject to a work test, plus a national minimum wage (Smail R., 1985). In 1988 BIRG's disability study group found it would be difficult to pay BI disability supplements without some sort of work test (BIRG Disability Group, 1988).

All in all, modifications to the original, 'pure' BI concept do seem necessary.

## 6 TRAINING AND EDUCATION

The core advantages of BI are the impetus it would give to fairness, autonomy and incentives, but it also has secondary advantages. One such is the boost it would give to training and education. BI would help reduce skill shortages by providing automatic income maintenance during education and training, and by abolition of the availability for work rule — which currently prevents claimants from improving their earnings potential by full-time study or training.

For decades, each time British industry gets into top gear it runs up against skill shortages, and has to change down again. Since the early 1970s successive governments have spent increasing amounts (in real terms) of taxpayers' money on a succession of training initiatives. By 1989-90 the figure was about £2,500 million. Yet in terms of educational achievement, and by international standards, we still lag behind.

The problem has three components:

- The primary and secondary education system, which determines the quality of employers' raw material

- Youth training, and the overlaps between vocational training and tertiary education
- Adult training and re-training

### 'Tbble 6: Highest qualification/vocational qualification of persons of working age, GB, Spring 1988

	Employee %	Self-employed %
Degree or equivalent	9.3	
Higher education below degree level*	7.0	10.3 3.6
(('E 'A' level or equivalent** '( )' level or equivalent (>ther	23.7 18.6 12.0	33.0 13.1 10.4
No qualification	29.2	29.5
TOTAL	100.00	100.00

Source: Department of Employment, 1988 Labour Force Survey

\* IINC/HND/BEC/TEC (Higher), Primary and Secondary Teaching Qualification, Nursing Qualification

† • ONG/OND/BEC (NAT.GEN)/TEC (NAT.GEN), City and Guilds, Trade Apprenticeship completed

The shortcomings are evident not only in current, declared skill shortages. These always understate the problem, since many employers adjust by changing their skill standards and/or production processes. Beyond this there may be a longer-term problem in that, to a certain degree, lack of trained labour is a consequence of lack of employer demand for it. It is possible that many employers are satisfying themselves with a low-skill, low-quality strategy which, in the long run, is unsustainable. Whatever the truth of this, there is abundant evidence of how poor skill standards affect the performances of individual industries.

The Department of Employment's *New Training Initiative* (1981) included a good analysis of the problem. First, the schooling system, which, despite its merits, did little to foster the right attitudes towards work and training. (It was also failing to produce basic literacy and numeracy skills for many who left school at 16.) Second, youth training, the provision of which was totally inadequate. The apprenticeship system covered too small a number of trainees, was

concerned with serving time rather than producing competence, and provided narrow skills rather than a range of modules. Third, adult training/ re-training, which was particularly lacking. Amongst other recommendations, the report suggested broader-based, more generally available youth training. Future training systems should be more 'modular', that is to say systems on which employers would be able to build. Training for the professions was good to very good, but training for management was bad, and there was a new awareness of the UK's poor training record by comparison with competitors.

Since 1981 attitudes have changed: for instance, there has been a 50% increase in re-training for directors, which in due course should help to change attitudes further down the line. But in terms of directors the starting point was very low indeed: hence the overall training gap has still not been filled.

Today there is a renewed awareness of the scale of our skills problem, and the need to improve not only the quantity but also the quality of training. Whatever assistance Government can offer, in the end the bulk of training decisions have to be in the hands of business. It is vital that such decisions are taken as an integral part of corporate strategy.

By comparison with many competitor countries, Britain is badly out of line. Many British companies rely on a relatively unskilled workforce and pay relatively low wages, resulting in a low-skill workforce and a low-wage equilibrium. Using this sort of strategy British companies tend to be at the low-quality end of the market. So far they have been able to make do, but the situation cannot last. In the long term there is no future for the UK as a major trading country, unless we go for a high-skill, high-quality, high-wage equilibrium — which is one reason why the case for a statutory minimum wage is stronger than it used to be.

At present there is a danger of paying too much attention to the appearance of training rather than its content. The Youth Training Scheme (YTS) has been a success (by and large), but YTS will not continue indefinitely; moreover, what is needed is continuous training throughout adult life, and progress on adult training and re-training has so far been very limited.

At the Institute of Directors the main thrust has been to develop a more flexible labour market, and to do so partly by treating

employees more as individuals. Ideally individual employees would be able and encouraged to take more responsibility for negotiating their own training, including training not sponsored by their employers. Gradually the situation is developing where responsibility for training will be split between employers and members of their workforce. Company training programmes have to fit in with company business strategies, and do not necessarily fit with the career strategies of individual employees. One way forward would be to allow employees to set their training costs against income tax (as recommended by the Royal Commission on Taxation and Profits in 1975). Failing that, both employees and the self-employed should be taxed on their net profits — the idea being to encourage self-education (IOD 1990).

In August 1989 Sir John Cassels, a former Director General of NEDO, blamed Britain's skill shortage on a "low productivity/low wage syndrome ... re-inforced by low investment in human resources" (Tassels J., 1989), and identified five key weaknesses:

- Failure to attract young people into management, and to develop their talents once there
- Failure to enable young people to undertake higher education
- Failure to develop practical rather than academic talents
- A tendency to regard learning as an activity for the young
- No educational and training infrastructure.

He also proposed four key policy aims for the year 2000:

- All 16-18 year olds to be in full-time education or work experience combined with vocational education
- At least 75% of 18 year olds to obtain qualifications at 'A' or 'AV level
- At least 25% of 18 year olds to take first degree courses
- All adults to have access to work-related education and training

In the autumn of 1989 the Confederation of British Industry (CBI) published their own proposals for a skills revolution, with similar targets, but including a proposal that all 16 year olds should be able to get Exchequer-funded *training credits*, to meet the learning costs associated with approved courses. The credits would be about £1,500

a year and would be used to 'buy' training or education. Additionally the CBI recommended replacement of local authority education maintenance allowances by a nationwide, discretionary maintenance allowance, 'for those denied educational opportunity through poverty and for those who are genuinely unable to find an employer training place through disadvantage, disability or in areas of high unemployment' (CBI 1989, para 120).

All these proposals move in the right direction, but none goes far enough, because none addresses that part of the problem which has its roots in the Beveridge Plan, and the introduction in 1948 of a social security system *from which students and trainees were and are specifically excluded*. To the extent that skill shortage is inherent in a social security system that leaves students and trainees to fend for themselves, BI would help in the following ways:

- Benefit entitlement based on citizenship, not labour market status
- Abolition of the availability for work rule
- An integrated tax/benefit system, with a single set of rules

The availability for work rule disqualifies students and trainees from the right to DSS benefits, no matter how low their income — which is enough to undermine any training strategy. Britain has no hope of winning the skills race against Germany, Japan, France or even the newly industrialised countries like Korea and Taiwan so long as unemployed (sometimes illiterate) claimants who study more than 21 hours a week (including home-work) automatically forfeit their right to any sort of benefit.

Yet the DSS (sticking rigidly to the Beveridge principle that a claimant should be 'out of work but available for work') is loath to permit even 21 hours. Priority, according to the Minister, must always be given to finding (and accepting) a job, no matter how low the pay or poor the prospects. This extraordinary attitude was summed up in a Parliamentary Written Answer in November 1989:

**Mr Meacher:** How many of the actively seeking work clauses of the Social Security Act 1989 will affect people studying under the 21-hour rule provision?

**Mrs Shephard:** I expect the actively seeking employment condition to have similar effects on all unemployed claimants.

In reinforcing the principle that it is a claimant's personal responsibility to look for work it will make a significant contribution to returning unemployed people to jobs. *Unemployed claimants studying under the 21-hour rule must, before, be prepared to leave their studies immediately should job opportunities arise.* They must also make efforts to seek employment. In determining whether a claimant has taken reasonable steps to seek employment, regard is had to time spent on vocational training or study, but *no claimant, no matter how usefully he occupies his time out of work, should ignore job opportunities.*

(Hansard Written Answer 27 Nov 89 c 153 (BIRG emphasis))

In a country where students and trainees are uniquely excluded from income maintenance, skill shortages are inevitable. Gradually, since 1988, other government departments (notably the Department of Education and the Department of Employment) have stepped in with their own piece-meal provisions. And local education authorities are theoretically able to make discretionary awards, although their ability to do so is steadily decreasing. But none of this is sufficient to alter the messages that go out to young people, and the replacement of mandatory grants by student loans makes matters worse.

Although the advantages of education and training may seem crystal clear to the Establishment, they are much less so to the teenagers (and their families) who are being urged to give up today's wage packet in return for an uncertain tomorrow. They need much more carrot. At present most students (including school students) and most trainees get no maintenance from public funds at all. First-degree students do best, but even they, during the crucial sixth-form years, get nothing at all.

If Sir John Cassells' policy aims are to be fulfilled (all 16-18 year olds in full-time education/training, 75% of 18 year olds getting 'A' or 'AV' level qualifications, and 25% + of 18 year olds on first-degree courses) two questions have to be addressed:

- What are they going to live on?
- Who is to reimburse them (and their families) for the opportunity costs of their lost wages?

So far, this part of the skills problem has not been identified, let alone dealt with. Instead it is taken for granted that young people will be

supported by their parents. Improving the system of educational maintenance allowances, as recommended by the CBI, goes nowhere near far enough, and would intensify the poverty trap. Many families cannot afford to maintain their children beyond age 16; many more rely on the earnings of their teenage offspring to make ends meet. The official statistics show a clear correlation between the numbers of 16 year olds staying on at school and the areas where they live. Local education authorities in areas with the highest rates of unemployment have the lowest percentages of 16 year olds at school. There are also many families who could afford to help their student children, but are unwilling to do so — especially where the main wage earner is not the natural parent.

On whom should the living costs and opportunity costs of training and further education fall? On the young people themselves, through a system of loans? On their families? On industry? On society? Or on a mixture of all four?

Naturally BI cannot solve the skills shortage, but it could help. *With BI, society as a whole would take responsibility for the basic living costs of students and trainees.* Since they are tomorrow's taxpayers, there is nothing illogical or economically unsound about that. Over the life cycle they would (on average) repay what they have received, each according to his income. Some would repay less, some far more.

Unlike the CBFs training voucher, which goes to employers (in return for training), the Bis would go to to buy food. Without a BI, or something very like it, the skill strategies put forward by Sir John Cassells and the CBI have only a limited chance of success. BI could enhance that chance, and it would do so unbureaucratically. The Bis would not be enough to buy good living, but they would be guaranteed, which is a student's first priority. Moreover they would encourage adult training/retraining, not just teenage training.

Britain cannot become a high-skill, high-wage economy unless attitudes towards the funding of education and training change. Education is a public good. The idea of training vouchers is excellent, but not enough. The customer should be the individual, and to give individuals the necessary bargaining power, they must also have a BI. We therefore need a clear philosophy about individual rights and a clear recognition that parents will not (cannot) be expected to finance their offspring over longer and longer periods. It has been suggested that for young people under 18 there should ideally be no

proper wage, but training instead. Yet from the individual young person's point of view education and training involve huge risks — risks they hesitate to take. A BI would help them take those risks. Mirny people have a gut feeling against BI, but there is little doubt 11 n it it would help with risk taking.

## 7. EQUAL OPPORTUNITIES

The existing tax and benefit systems package people into boxes according to pre-arranged categories — Beveridge or even pre-Ueveridge in origin — as though everyone were either sick or fit, married or single, taxpayer or beneficiary, in or out of work. With BI no one would be 'packaged' and everyone would be subject to the same ground rules. In theory a BI would set people free from their boxes, but it is still an open question whether — and if so to what extent — reform along BI lines would create equal opportunities in I lie labour market. By no means all, or even most, labour market disadvantage is due to the tax and benefit systems. Low earnings may be due to exploitation (i.e. being paid less than one's true worth) or to low productivity — or to a mixture of both. Unequal opportunities result from a multiplicity of factors, for instance:

- (1) Prejudice
- (1i) Lack of skills
- (:()) Family responsibilities
- M) Disability
- (f>) Cultural differences
- ((i) Location and transport
- (7) Tax and benefit systems

Whatever the complex of disadvantage, it would be wrong to expect MI to make major advances. The best we can hope for are improvements at the margins. Nevertheless, by making the tax and benefit systems non-discriminatory, government would set a sorely needed precedent, and would help create an atmosphere more conducive to equal opportunities — which in itself would be a big advance.

In Britain the most disadvantaged groups include women (especially lone mothers), people with disabilities, and ethnic minorities. Labour market participation (or the lack of it) is shaped by a mixture of the discriminatory factors listed above, and the interaction

between them is infinitely variable. Here we are concerned mainly with the tax and benefit systems.

To the extent that a dual labour market exists, it creates a clear case for BI. With the existing benefit system large numbers of women, people with disabilities and carers are excluded from the primary labour market. Unemployed men do not like their wives to work full-time, because it results in the husbands' benefits being docked. Invalidity pensioners are not allowed to earn more than £35 a week (therapeutic earnings) and carers receiving Invalid Care Allowance are restricted to £20. All these people are trapped in the secondary labour market. By introducing BI they can escape the earnings rules, and can in theory gain access to 'primary' jobs, though the problem of low pay remains. There is also a danger (as already noted) that BI could institutionalise 'primary' and 'secondary' labour markets through a wage subsidy effect. However a small minimum wage might prevent this from happening without pricing people out of work.

### (1) Equal opportunities: women

Women's earnings relative to those of men rose significantly during the early 1970s, following equal pay legislation. By 1977 they were 75.5% of men's, compared with 63.1% in 1970. But in 1978 the figure fell to 73.9% and did not reach 75% again until 1988. In 1989 it reached 76.4%, an all-time high.

**Table 7: Women's earnings\* as a proportion of men's in April of each year %**

1970	63.1	1978	73.9	1982	73.9	1986
1975	72.1	1979	73.0	1983	74.2	1987
1976	75.1	1980	73.5	1984	73.5	1988
1977	75.5	1981	74.8	1985	74.1	1989

\* Average gross hourly earnings, excluding overtime, of full-time employees aged 18 and over, whose pay was not affected by absence.

Source: *Department of Employment Gazette*, November 1989, page 603 Table 5.

The figures in Table 7 largely reflect women's different employment patterns and other labour force characteristics rather than lower rates of pay for comparable jobs. On average women do less overtime and shift work than men, receive fewer incentive payments, follow different career patterns, and work in occupations which are more likely to be low paid. From which it follows that the best way to achieve greater labour-market equality between women and men

IN In tackle the reasons why women have different employment patterns and work in lower-paid jobs.

Some of the reasons are socio-biological, some historical and some the result of choice. Many mothers willingly forego job prospects in order to stay at home with their children, especially when they are very young. In making that choice the mothers are influenced by many factors, including the tax and benefit systems. The tax allowance system and the lower-earnings level (LEL) for NI contributions actively encourage women into the secondary labour market, where part-time working is predominant. Some employers will only recruit workers on a part-time basis, and those workers are nearly always women. By keeping each employee's wage packet below £46 (the LEL for NI contributions in 1990-91), employers can avoid paying their part of the NI contribution, and employees can take home the whole of the £46 free of tax. More recently this practice has acquired a new twist. Some employers now offer childcare (either workplace nurseries or, more recently, childcare vouchers) as part of the wage agreement, which is extremely tempting to women with small children, and employers still save the cost of their NI contribution. But it worries organisations like Age Concern, because the women who take those jobs seldom realise they are forfeiting future pension entitlements.

Women figure disproportionately among the elderly poor. An old age pension (or BI) based on legal residence would give them greater protection during old age, but it would not give them equal labour-market opportunities. Discrimination starts in the home, with an unequal burden of unpaid work. It is only reinforced by unequal pay, unequal conditions and unequal pensions. BI advocates argue that a modest, independent income for both men and women plus a new structure of incentives would result in partners sharing unpaid and paid work more equally. But in the women's movement, and elsewhere, fears are expressed that BI would discourage women from participating in the labour market.

Certainly mothers with babies would tend to stay at home longer before going back to work — because a BI alters the 'offer curve' for women. Other things being equal, the bigger the BI the longer mothers would stay at home (on average). But would that matter? BI is not intended either to encourage or discourage labour market participation by mothers with young children. It is about options, equalisation of opportunities and enhanced choice. It is also about sharing work (paid and unpaid) more fairly between the sexes. With

a BI system, mothers could choose to stay at home or use their Bis to buy childcare. It is not for the women's movement, or anybody else, to tell mothers what they should do.

If the introduction of a BI did result in large numbers of women withdrawing from the labour market, the most likely effect would be higher women's wages — and increased labour supply. Demographic pressures during the 1990s are in any case going to increase the opportunity costs of staying at home.

In practice the impact of BI on women's labour-market participation rates would depend on the details of whatever BI scheme was introduced. Replacement ratios would be a key indicator, and they would depend on many variables, for example the BI amounts, the extent of dependence on means-tested benefits, the rate/s at which means-tested benefits were withdrawn, the rate of the new income tax, whether or not the first slice of earned income was tax-free, and the availability and cost of childcare. For families with children replacement ratios would also depend on the BI amounts for children. If these were large enough to be able to do away with Income Support and Family Credit, work incentives would be greatly increased.

## (2) Equal opportunities: people with disabilities

For people with disabilities, problems of access and discrimination in the workplace interact with benefit conditions. BI cannot address them all. The results of BIRG's study group on people with disabilities were published in BIRG Bulletin No. 7 (BIRG Disability Study Group, 1988). All group members welcomed abolition of the earnings rule in principle, but major problems emerged in connection with the proposed BI disability supplement. The thinking behind the supplement is that, in addition to abolishing the earnings rule, the scheme should compensate people with disabilities for their labour market disadvantages (e.g. increased work expenses and reduced earning capacity). Since an income tax relief is no use at the bottom end of the earnings distribution, a FBI supplement seems the logical solution. But it raises important issues of principle. The borderline between disability and lack of ability will always be problematical, especially where there is a £40 supplement at stake. Should entitlement to the supplement depend on a work test? If so, people with disabilities would face a unique form of conditionality in the scheme.

A BI supplement for carers also raises difficult issues, both because most carers are women, and because the idea of a carer's supplement

requires definition of the role of 'full-time' carer, similar to the one for Invalid Care Allowance. This raises the possibility of restrictions in Inhuur market participation — another form of conditionality. One •mintinn is to allow carers to use their supplement to purchase Niipplementary care while they are out at work. Another is to give I lie allowance to the person who is being cared for, so that he/she run purchase the care package they prefer.

In general terms, most people with disabilities (and people working mi (heir behalf) would probably consider BI an inadequate programme without a parallel, rigorous policy for improving access to I lie labour market and reducing discrimination. Policies would need l, o include training and education grants, in order (for example) lu help people who can no longer do manual work re-train for office

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## (!) Equal opportunities: ethnic minorities

h'ur ethnic minorities, discrimination (ie racism) is a greater contributory factor to their disadvantages than the tax and benefit wyslems. The most recent Labour Force Survey shows that just under r>".. of the population of working age, or about 1.6 million people, are from ethnic minority groups. Other things being equal, we would expect black and Asian people to have similar rates of labour market prnlrpiration and unemployment as whites, but in fact each has a illNl.iirt.ive pattern of involvement. Those differences were summarised in articles in the March and April 1990 issues of the Department of Kmployment Gazette.

% \*, GB spring 1989, by ethnic

### 'Iiiblt' 8: Unemployment rates origin and sex

Ethnic origin	All	Men Women	
		Men	Women
All of working age	7.1	7.2	7.0
Whites	6.9	6.9	6.8
Black minority groups (it which:	12.0	12.7	11.0
West Indian/Guyanese	14.4	15.1	13.6
Indian	9.4	9.9	8.6
Pakistani/Bangladeshi	21.8	21.4	**
All other ethnic origins	7.9	7.9	8.0

Source: *Department of Employment Gazette*, April 1990, page 210, Table 23.

\* 11.6 definition

\*\* Sample size too small for reliable estimate

During the years 1984-89 the unemployment rate among ethnic minorities was between 60% and 90% above the rate for whites, with significant variations between the different racial groups, which are summarised (for 1989) in *Table 8*.

Further major discrepancies appear in the labour market participation figures. In the years spring 1986 to spring 1988, economic activity rates for men of working age averaged 88% among whites, compared with 79% among ethnic minorities. For women the corresponding figures were whites 69% and ethnic minorities 54%, but the ethnic-minority average figure conceals the fact that Caribbean women had a participation rate of 73% (higher than for white women), whereas among Pakistanis and Bangladeshis it was only 20%.

**Table 9: Economic activity rates by ethnic origin and sex; age 16-59/64; GB, spring 1986 to 1988**

	All	Males	Females
All ethnic origins	79	88	69
Whites	79	88	69
Ethnic minority groups	67	79	54
of which:			
West Indian/Guyanese	79	85	73
Indian	70	83	57
Pakistani/Bangladeshi	49	76	20
All other origins*	65	73	56

\* Including those of mixed origin

Source: *Department of Employment Gazette*, March 1990, Table 1, page 127

There are also significant differences in the economic status of 16-24 year olds by ethnic origin. Lower labour-market participation rates are partly explained by the different proportions of young people staying in full-time education. Among men only 12% of whites were students, compared with 34% of ethnic minority groups. Among women only 10% of whites were students, compared with 20% of ethnic minorities. A larger proportion of young Asian women than in other groups were unavailable for work for 'family or domestic reasons'.

In terms of occupational structure, Indian men are more likely than whites and other ethnic minority groups to be in non-manual occupations. Caribbean men are the least likely to be in non-manual occupations. Among women there are no striking differences.

Judging from the figures it is mainly as non-participants in the labour market (including students) and as low-paid workers that ethnic minorities stand to gain from BI, but only in conjunction with policies to overcome discrimination and improve access to more highly skilled and better-paid employment. The above-average number of young people from ethnic minorities in higher education indicates the importance to them of higher education as a route into the labour market. A guaranteed BI would help them a lot.

Cultural differences are also important. At BIRG's ethnic minorities seminar in Birmingham in November 1989, the proposal for a BI for 16-17 year olds was explained, and the point made that it would help to encourage 16-year-olds to stay on at school or do vocational training. To which a young woman from the Chinese community replied that Chinese parents prefer their children to stay at home and get help. Some ethnic minority groups might oppose BI because it would challenge accepted norms of behaviour — a criticism that might also be applied to the introduction of a national minimum wage in 'sweat shops'.

## H. BASIC INCOME AS PART OF A WIDER PACKAGE

The underlying aim of BI is to enhance autonomy and choice. BI would shift the balance between paid and unpaid work, giving tangible recognition to the value of the latter. But it would need to promote paid work as well, otherwise there would be financing problems. This conflict between freedom of choice and the need to generate wealth is central. Advocates of BI do not devalue the work that they do want to adapt it to post-industrial societies. For, in their view, the time is fast approaching when societies that attach too much priority to paid work will end up with chronic long-term unemployment alongside shortages of men and women willing to do unpaid and voluntary work.

It is not a pressure group. BIRG's aim is to encourage informed debate, not to push any particular scheme. BIRG's method is to set out the issues fairly and squarely, in the light of the best research available, but not to try and influence public opinion in a 'campaigning' sense. Some of the issues are economic and some political. In principle, if the BI principle were accepted, the form in which it is introduced would reflect the political priorities of the government that introduced it. Given the length of time that this would take, political consensus about it would be essential.

The group's first step was to make a clear distinction between full, partial and transitional BI schemes. In BIRG's experience full BI (enough to live on) is much easier to 'sell' than the partial or transitional models, but only on a rather superficial basis. Once its cost and distributional effects are explained the initial enthusiasm tends to fade away. Politicians in particular take cost and distributional effects extremely seriously, as indeed they must, for they risk losing votes if there are too many losers.

That is why systematic analysis of different BI options, using pre-selected criteria (e.g. income gains/losses and replacement ratios) is so important. This was outside the group's remit, but comparative analysis by Parker in *Instead of the Dole* (Parker, H., 1989) has already shown that partial BI (despite its limitations) can be superior to full BI in terms of incentives, that it has far fewer losers and is considerably more flexible. Moreover BI on its own (even a full BI) is not enough to prevent poverty if the wage earner has childcare costs to pay. Other instruments are necessary, for instance childcare provision, childcare tax reliefs or vouchers, and a minimum hourly wage. Close analysis also shows that the original BI concept (all income taxable except the *Bis*) needs modification. If tax were collected from the first £ of earned income, it could result in higher marginal tax rates at the point of entry to the workforce than at present (due to the earnings disregards with existing benefits).

For the time being, BIRG is primarily concerned with transitional BI, as forerunner to a partial BI. But in order to catch the public imagination, it is not enough to present the case for BI solely in terms of incomes. It must also be based on moral principles with which the public can agree. The Beveridge Report aroused tremendous interest because it seemed to offer a better deal for everybody and was based on a moral principle — *the right to a minimum of subsistence* — for which there was overwhelming support. That principle still has support, but the promise has not been fulfilled, therefore the instrument needs changing. There is another moral principle with which many people would agree: that of citizenship and solidarity, as opposed to rampant individualism. Yet another is equal treatment, or symmetry, between the sexes.

Some people argue that Beveridge's national minimum was conditional, whereas BI is unconditional, and would therefore encourage sloth. So it has to be demonstrated that it is the very conditionality of the present system which traps people into economic inactivity (except in the underground economy). Another

consideration is the need to keep major social institutions, like the National security system, in line with social, economic and technological change. During the half-century since Beveridge wrote his Plan, the labour market has altered out of all recognition, and private pension provision has transformed the outlook for many pensioners. Yet the need for income protection through social security is as great as ever. It is the natural instrument for a charitable society that wishes to encourage self help. An unconditional, universal BI would promote self-reliance in a way that means-tested benefits can never achieve. Economic and ideological developments weakened the case for universalism during the 1980s, but today there are signs that public opinion found untrammelled Thatcherism repugnant.

Ignorance of the dynamic effects of BI forces us to adopt a softly, softly approach. Indeed that has been one of the most significant findings of research in recent years. 'Big Bang' solutions are out. Transitional schemes are in. Hence the huge shift between the Liberal Party's 1988 Tax-Credit scheme and the Liberal Democrats' 1990 proposals for a Citizens' Income. In a recent article in *The Times* Ralf Dahrendorf wrote wistfully about the lack of available finance for a New-Jersey type BI experiment (Dahrendorf R., 1990). Yet the North American NIT experiments were in many ways misleading. A step-by-step approach, learning from our mistakes, now seems more appropriate. Within that approach the specific problems of minority groups (like the disabled) can be tackled separately.

The study group started by asking whether a BI system was more or less likely than reform within the existing tax and benefit systems to protect people against the labour-market consequences of social, economic and technological change; to help them respond to it; and to promote the competitiveness of British industry. A major issue was whether BI would contribute towards economic efficiency. No social security system is labour-market neutral. All have good and bad effects. The main finding of this paper is that BI on its own cannot solve our current labour-market problems, but it could make a substantial contribution. To maximise its effectiveness it would need to be introduced slowly, as part of a wider package. Although the details of any particular BI package are controversial and in any case beyond the group's remit, there was general agreement that a partial BI could have important advantages by comparison with reform within the existing system.

We then asked what would be the general principles upon which a transition to BI is most likely to be acceptable to workers, potential

workers, employers and unions. And this raised the issue of whether or not to include a national minimum wage. The case for some sort of minimum wage is stronger today than in the past and its inclusion would certainly make BI more acceptable to the unions and to the lower paid. Yet the two issues are separate and each requires to be judged on its merits.

The business community, in order to operate efficiently, prefers a wide dispersion of earnings and rates of pay. Budding entrepreneurs need to be able to accumulate capital and unit wage costs need to be competitive. But the business community also has a long-term interest in social cohesion, and looks to government to provide the framework within which it can prosper. That framework includes a sustainable safety net below which nobody's income is allowed to fall, and the avoidance of an underclass. Cardboard cities can be ignored for a while, but not if they threaten social cohesion.

The best way to tackle poverty is by moving towards a high-skill, high-productivity economy, in which every adult is free to participate. To do this may require changes that are difficult if not impossible within conventional social security systems. For instance it is difficult to see how the earnings rules (which trap claimants into economic inactivity), or the availability for work rule (which traps them in ignorance) can be abolished so long as the benefit entitlement regulations specify that claimants must be out of work and available for work (or unable to work). With BI there is no such difficulty because the basis of entitlement is legal residence, regardless of work status.

After much research, all the later Basic Income Guarantee (BIG) schemes proposed by Rhys Williams and Parker became modified TBI schemes, as did the Liberal Democrats' scheme for a Citizen's Income (Liberal Democrats, 1989). In 1985, in the BIRG Bulletin article already referred to, Robin Smail of the Low Pay Unit also proposed what amounted to a modified FBI scheme: a two-tier BI, both tiers based on citizenship, one unconditional and the other subject to a work test, plus a national minimum wage (Smail R., 1985). In 1988 BIRG's disability study group found it would be difficult to pay BI disability supplements without some sort of work test (BIRG Disability Group, 1988).

All in all, modifications to the original, 'pure' BI concept do seem necessary.

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