

LANDMARKS IN SOCIAL WELFARE 1900 to 2013

- 1901 **Seebohm Rowntree's first study of poverty in York**, *Poverty: a study of town life*
- 1903 **Charles Booth's study of poverty in London**, *Life and Labour of the People of London*

1906 - 12

THE NEW LIBERALISM

'We will draw a line below which we will not allow people to live and labour' – Lloyd George

- 1906 **School Meals Act**
- 1908 **Old Age Pensions Act**: means-tested pensions from age 70
- 1909 **The People's Budget**: super tax and child tax allowances introduced
- 1911 **National Insurance (NI) Act**: sickness insurance and limited provisions for unemployment

1913 - 41

CHANGE AND DEVELOPMENT

'In all this change and development, each problem has been dealt with separately, with little or no reference to allied problems' – Beveridge Report

- 1920 **Unemployment Insurance Act**: non-manual workers included.
- 1925 **Widows', Orphans', and Old Age Contributory Pensions Act**
- 1936 **J.M. Keynes' General Theory of Employment, Interest and Money**
- 1940 **Old Age and Widows' Pensions Act**: pension age for women reduced from 65 to 60

1942 - 79

TOWARDS A 'BEVERIDGE' WELFARE STATE

'It is, first and foremost, a plan of insurance – of giving in return for contributions benefits up to subsistence level, as of right and without means test, so that individuals may build freely upon it' – Beveridge Report

- 1942 **Sir William Beveridge's Report on Social Insurance and Allied Services**: a comprehensive plan for contributory and means-tested benefits. One of the assumptions listed was a universal benefit for children
- 1943 **Juliet Rhys Williams' proposal for a work-tested Citizen's Income**: 'The Beveridge Plan .. will undermine the will to work of the lower-paid workers to a probably serious and possibly dangerous degree. The prevention of want must be regarded as being the duty of the State to all its citizens, and not merely to a favoured few'
- 1945 **Family Allowances Act**: £0.25/wk for each child after the first
- 1946 **National Insurance (NI) Act**: flat-rate NI benefits
- 1948 **National Assistance Act**: Poor Law abolished; means-tested National Assistance established
- 1955 **Richard Titmuss' Eleanor Rathbone Lecture on the Social Division of Welfare**: 'The tax saving that accrues to the individual through income tax allowances is, in effect, a transfer payment'
- 1959 **National Insurance Act**: graduated pensions introduced
- 1962 **Milton Friedman's Capitalism and Freedom** includes Negative Income Tax proposals
- 1965 **Poverty 'rediscovered'**: *The Poor and the Poorest*, Brian Abel-Smith and Peter Townsend
- 1966 **Supplementary Benefit replaces National Assistance**. Rate Rebates introduced
- 1971 **National Insurance Invalidity Benefit introduced. Family Income Supplement (FIS) introduced** (and with it the poverty trap)
- 1972 **Heath Government's Proposals for a Tax Credit scheme**. Tax Credits become Conservative Party policy. First national scheme of Rent Rebates.
- 1975 **Social Security Pensions Act**: State Earnings-Related Pensions (SERPS). Earnings-Related National Insurance Contributions introduced at 5.75%
- 1976 **One-Parent Benefit introduced**
- 1978 **'Meade Report'** on *The Structure and Reform of Direct Taxation* includes a chapter on Social Dividend.
- 1977-79 **Tax-free Child Benefit phased in**, for every child, replacing taxable Family Allowance and Child Tax Allowances

1980 - 90

TOWARDS A RESIDUAL WELFARE STATE

'We offered a complete change in direction' – Margaret Thatcher

- 1980 **Social Security Acts 1 and 2**: Pension upratings linked to prices instead of earnings. Education Act: Local Education Authorities allowed to choose whether to provide school meals: fixed prices and national nutritional guidelines abolished
- 1982 Earnings-related supplements with National Insurance Unemployment and Sickness Benefits cease
- 1983 **First official reference to Basic Income (Citizen's Income) in the report of the Meacher sub-committee of the House of Commons Treasury Select Committee. National Insurance Sickness Benefit replaced by Statutory Sick Pay.** Rent/rate rebates replaced by Housing Benefit
- 1984 **Basic Income Research Group formed**
- 1985 **Norman Fowler's Social Security Review**. Billed as 'the most fundamental since World War II', but did not examine integrated systems.

- 1986 **Social Security Act** (effective 1988): Top rate of Income Tax down from 60% to 40%; standard rate of Income Tax down from 27% to 25%; withdrawal of Income Support from most 16-17 year olds. Cuts in Housing Benefit, SERPS and National Insurance Widows' Pensions. Maximum Rate Rebate limited to 80% of liability. Child Benefit frozen. Income-tested FIS replaced by means-tested Family Credit. Free school meals restricted to families on Supplementary Benefit. Introduction of work test.
- 1987 **National Insurance Maternity Grant replaced by Statutory Maternity Pay**
- 1988 **Supplementary Benefit replaced by the less flexible Income Support**
- 1989 **Social Security Act introduces 'actively seeking work' test**
- 1990 **Liberal Democrats' Conference votes for Citizen's Income**. Independent taxation of husbands and wives introduced, but with married couples' allowance for husbands.

1991 - 1996

CUTS AND TINKERING

'The changes I have announced today will help shift the balance back to a benefit system that does not discriminate against married couples, and which aims to reduce benefit dependency by helping people into work' – Peter Lilley

- 1991 **Child Support Act introduced. Benefits Agency established. Child Benefit unfrozen.**
- 1992 **Disability Living Allowance replaces Mobility Allowance and Attendance Allowance** for the under-65s. Disability Working Allowance introduced. Commitment to uprate Child Benefit in line with inflation included in Conservative Party manifesto.
- 1993 **Sector by sector review of social security.**
- 1994 **'Welfare to work' measures to ease transition into paid work and encourage full-time work.** Introduction of Child Care Allowance for certain parents claiming Family Credit and related benefits.
- 1995 **Incapacity Benefit replaces Sickness Benefit and Invalidity Benefit.** Phasing out of additional assistance for lone parents. Cuts in Housing Benefit for young people. Pensions Act reforms occupational pensions, reduces value of SERPS, and phases in equalization of pension age for men and women from 2010 to 2020.
- 1996 **Jobseeker's Allowance (JSA) replaces Unemployment Benefit and Income Support for the unemployed.** The contributory benefit is paid for 6 months instead of 12 and the level is reduced for 18-24 year olds; jobseeker's agreement introduced. Asylum and Immigration Act 1996 introduces restrictions on benefits, housing and employment for asylum applicants

1997 - 2008

NEW LABOUR

'In future, welfare will be a hand-up not a hand-out' – Tony Blair

- 1997 **Tony Blair becomes Prime Minister.** First Labour government for 18 years.
- 1999 **Family Credit replaced by Working Families Tax Credit (WFTC)** and Disabled Persons Tax Credit (DPTC). Non-means tested Winter Fuel Allowance for those over 60 introduced.
- 2000 **Benefit entitlement for new asylum seekers ends.**
- 2001 **Children's Tax Credit introduced** – a tax allowance for those with children. Bereavement benefits reformed to include widowers as well as widows. Abolition of Severe Disablement Allowance for new claimants.
- 2002 **State Second Pension replaces SERPS.** Carers and those with children under 6 become entitled to credits in accruing pension rights.
- 2003 **Child Tax Credit (CTC) and Working Tax Credit (WTC) replace WFTC, DPTC and Children's Tax Credit.** Payment depends on a claimant's annual income and is assessed annually unless there are certain changes of circumstances during the tax year. WTC includes payments for up to 70% (later 80%) of childcare costs, and a maximum limit. Poor administration causes financial problems for claimants. 9 out of 10 families with children qualify. Pension Credit introduced, replacing Income Support for people aged 60 or over. It guarantees a minimum income for pensioners. **Reform of child support system.** Statutory Paternity Pay and Statutory Adoption Pay introduced. **Work-focused interviews for benefit claimants introduced.** Claimants for certain benefits are required to participate in an interview with a personal adviser. NI Contributions increased by 1% to fund the NHS.
- 2005 **Civil partnerships introduced** for same-sex couples. Cohabiting same-sex couples treated in the same way as heterosexual couples for benefit purposes rather than as two individuals.
- 2006 **White Paper Security in Retirement** proposes increasing retirement age, and a Basic State Pension uprated in line with earnings from 2012.
- 2007 **The House of Commons Work and Pensions Committee's report on Benefits Simplification** recommends a Single Working Age Benefit and publishes a costed Citizen's Income Scheme in its evidence.
- 2008 **Welfare Reform Act 2007** comes into force. Introduction of a Local Housing Allowance to simplify Housing Benefit for tenants renting privately. Employment and Support Allowance (ESA) replaces Incapacity Benefit and Income Support (for new claimants). The Work Capability Assessment that determines eligibility is contracted out to ATOS. Basic rate of Income Tax reduced from 22% to 20%. Controversial abolition of 10% tax band. Winter Fuel Allowance increased to £250

2009 - 2013

POST CRISIS AUSTERITY CUTS

'There is nothing fair or moral about a system that traps families into a life dependant on benefits' – Iain Duncan Smith

- 2009 **Start of phasing out of Income Support in favour of ESA and JSA.** Benefit sanctions for non-attendance at Jobcentres. Job search by partners of claimants required. Work focused interviews for over 60s. Work related activity required for receipt of ESA.
- 2010 **Conservative-Liberal Democrat coalition elected**
- 2011 **Local Housing Allowance cap introduced.** WTC payments for childcare reduced to 70% of costs. Withdrawal rates of WTC increased. Benefits uprated with CPI, which grows more slowly, rather than RPI.
- 2012 **Those earning over £50,000 and living with Child Benefit recipients have the value of the household's Child Benefit withdrawn through the tax system.** Child Benefit remains in principle universal, but more people than expected have ceased to claim it, thus compromising its universality. Withdrawal of its value through the tax system has established a tax on children. Couples with children must work 24hs/wk to receive WTC. 12 month limit for claiming contributory ESA. Households earning over £41,300 disqualified from CTC.
- 2013 **Universal Credit (UC) (Welfare Reform Act 2012) phase in begins, replacing Income Support, ESA, JSA, Housing Benefit, CTC, WTC and Social Fund budgeting loans with single monthly payment.** UC requires communication between employers', HMRC and DWP computers. UC increases earnings disregards and caps the marginal deduction rate at 65% of net income, but increases withdrawal rates for second earners. (For households paying Income Tax, the total marginal deduction rate is 76%.) Non-compliance with 'claimant commitment' results in non-receipt of benefit for up to 3 years. Social Fund Crisis Loans and Community Care Grants abolished, and funds devolved to Local Authorities. Personal Independence Payments (PIP) replace DLA, and assessment of eligibility is contracted out. Total household benefits capped for out-of-work working age households, and all-party support for overall cap on structural social security spending from 2015. A 'bedroom tax' reduces Housing Benefit by 14% (25%) for under-occupancy by (more than) one room. Council Tax Benefit replaced by localised Council Tax Support, with budget reduced by 10%; Local Authorities expected to introduce minimum Council Tax payments for working age households. It is unclear how UC and Council Tax Support will interact.

RESOURCES

THE CITIZEN'S INCOME TRUST'S PUBLICATIONS BULLETINS AND NEWSLETTERS

Since 1985 the Citizen's Income Trust has published a regular journal (titled *Basic Income Bulletin* from 1985 to 1992, *Citizen's Income Bulletin* from 1993 to 1998, and *Citizen's Income Newsletter* from 1999)

Every edition is available on the 'resources' page of the Citizen's Income Trust's website, www.citizensincome.org

Recent highlights:

Can Basic Income Cash Transfers transform India? by Guy Standing (2013 issue 2)

A rule-of-thumb Basic Income model for the UK, by Anne Miller (2013 issue 1)

A Citizen's Income scheme's winners and losers, by Malcolm Torry (2012 issue 3)

And less recently:

The results of our surveys of the House of Commons and the House of Lords (2007 issue 2)

Eight challenges for Basic Income by Tony Fitzpatrick; and a research note on the utility – or otherwise – of being employed for a few hours a week (2008 issue 1)

A report on a seminar about a significant Citizen's Income pilot study in Namibia (2009 issue 2)

And also on the website are occasional papers and longer reports (such as *Stumbling Towards Basic Income*, 2000)

A SHORT LIST OF TITLES FROM OTHER PUBLISHERS

Malcolm Torry, *Money for Everyone: Why we need a Citizen's Income*, Policy Press, Bristol, 2013

Karl Widerquist, Michael Anthony Lewis and Steven Pressman, *The Ethics and Economics of the Basic Income Guarantee*, Ashgate, Aldershot, 2005

Tony Fitzpatrick, *Freedom and Security: an Introduction to the Basic Income Debate*, Macmillan, Basingstoke, 1999

Philippe van Parijs, *Arguing for Basic Income: Ethical Foundations for a Radical Reform*, Verso, London, 1992

Reviews of numerous relevant books can be found on the 'reviews' page of the Citizen's Income Trust's website www.citizensincome.org

The international journal, *Basic Income Studies*, is available at www.bepress.com/bis

OTHER ORGANISATIONS

Links to BIEN (the Basic Income Earth Network – formerly the Basic Income European Network) and to other organizations can be found on our website: www.citizensincome.org

CITIZEN'S INCOME

AN INTRODUCTION

1 What is a Citizen's Income?

A Citizen's Income (CI) is an unconditional, automatic and non-withdrawable payment to each individual as a right of citizenship.

(A Citizen's Income is sometimes called a Basic Income (BI), a Universal Grant, or a Universal Benefit)

A Citizen's Income scheme would phase out as many reliefs and allowances against personal income tax and as many existing state financed cash benefits as possible, and replace them with a Citizen's Income paid automatically to every man, woman and child.

The Citizen's Income attack on poverty is three pronged. Such a scheme would

- end the poverty and unemployment traps, hence boosting employment
- provide a safety net from which no citizen would be excluded
- create a platform on which all citizens are free to build

A Citizen's Income scheme would encourage individual freedom and responsibility and help to

- bring about social cohesion. Everybody is entitled to a Citizen's Income and everybody pays tax on all other income*
- end perverse incentives that discourage work and savings.

A Citizen's Income would be simple and efficient and would be:

- affordable within current revenue and expenditure constraints
- easy to understand. It would be a universal entitlement based on citizenship that is non-contributory, non-means tested and non-taxable
- cheap to administer and to automate

* A Citizen's Income varies only with age; and there will be additions for disability

2 How would it work?

A Citizen's Income scheme would co-ordinate the income tax and benefits systems. A single government agency would credit the Citizen's Incomes automatically and recoup the cost via income tax levied on *all* income, rather than running separate systems of means testing, benefit withdrawal, and taxation. Instead of different rules for claimants and taxpayers, everybody would be treated alike.

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

Tax-free and without means test. The Citizen's Incomes would be tax-free and without a means test, but tax would be payable on all other income. This is necessary in order to finance the scheme. The rate of tax would depend on the Citizen's Income amounts. The higher the Citizen's Income, the higher the tax rate.

A new, comprehensive income tax. There are various ways of funding a Citizen's Income. The particular scheme set out here is funded by removing tax allowances and reliefs and reducing means tested and contributory benefits. In addition, Income Tax and employees' National Insurance Contributions would be merged into a new income tax. Here we establish the viability of a Citizen's Income funded by an income tax, but it could also be part of a wider tax reform package including, for example, a land value tax and/or a carbon tax.

3 Six fundamental changes

1. **Citizenship becomes the basis of entitlement**, subject to a minimum period of legal residency in the UK. Every citizen would have a small independent income, whether or not they are in paid employment.

2. **The individual would be the tax/benefits unit.** The Citizen's Income would be paid to individuals, not couples, families or households. Unlike the existing benefits system, Citizen's Income would be symmetrical between men and women. Marriage, civil partnership and cohabitation would be neither subsidised nor penalised.

3. **The Citizen's Income would not be withdrawn as earnings and other income rises**, nor would it be reduced by owning assets. It would be a base on which to build without having to report to officials every minor change in earnings or household composition. Benefits fraud would be reduced significantly. Work and savings of all types would be encouraged.

4. **The availability-for-work rule would be abolished.** Under the current system, young people in education or training, and unemployed people who study or train for more than a few hours a week, forfeit most benefits. With a Citizen's Income this would not happen. School attendance, further and higher education, voluntary work, vocational training and re-training would all be facilitated.

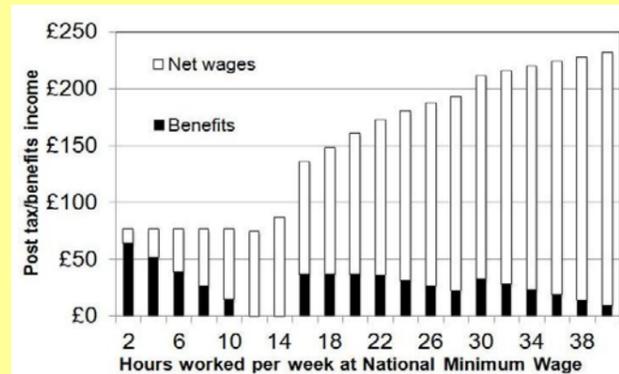
5. **Access to a Citizen's Income would be easy and unconditional.** Instead of the current maze of regulations, often resulting in perverse incentives, everybody would know their entitlement and their obligations. Take-up, as with child benefit (currently the only form of Citizen's Income in the UK), would be nearly 100%.

6. **Benefit levels would be indexed to earnings or to Gross Domestic Product (GDP) per capita rather than to prices.** To index the Citizen's Income lower than this would merely store up problems for the future. Whilst all citizens would benefit from a more generous payment, there would be an equal and opposite pressure against income tax rises to fund it. So two basic variables – the Citizen's Income level and the income tax rate required to fund it – would be inherently linked and stable.

4 Integrating tax and social security

The current system

Putting housing-related benefits to one side, in 2012-13 the net income of a single earner aged 25 or over after Income Tax, National Insurance Contributions, Income Support/JSA/ESA and Working Tax Credits was as follows:

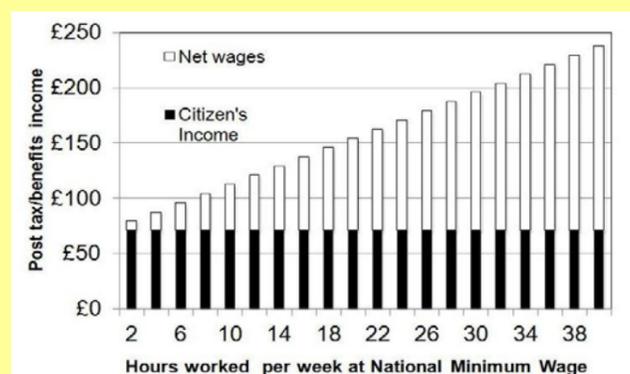


The chart clearly reveals the benefit trap. As earned income rises, earnings are taxed and benefits are withdrawn. Someone working between 11 and 16 hours per week retains their additional earnings in full, but if they work more than 16 hours per week and become entitled to tax credits, their net income rises much more slowly. If someone earning the national minimum wage (£6.19 in 2012) increases their weekly working hours from 20 to 40, their *gross* income increases by £124 per week but their *net* income only increases by £71 per week – having suffered £25 in Income Tax and National Insurance Contributions and lost £28 in Working Tax Credits withdrawal. The increase in net income is only 57% of gross income, so there is a 'marginal deduction rate' or 'withdrawal rate' of 43%. For many family types, withdrawal rates are 85% of earned income up to nearly £400 per week; and for some family types and some earnings ranges the withdrawal rate is higher than 95%.

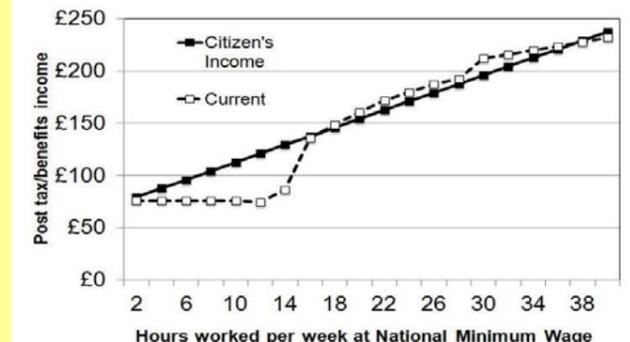
A Citizen's Income proposal:

The relatively uncontroversial Citizen's Income scheme proposed here assumes the following rates of Citizen's Income:

Age	Weekly CI	2012-13 rates:
0 to 15	£56.25	Current Income Support rates for 16 to 24 year olds
16 to 24	£56.25	
25 to 64	£71.00	Current IS/JSA/ESA rate
65 plus	£142.70	Pensions Credit rate



Overlapping the two previous charts shows that the system will increase work incentives at most levels of income:



5 Paying for a Citizen's Income scheme

The Citizen's Income scheme outlined here is close to being revenue and cost neutral. For simplicity, we shall assume a basic rate of tax on earned income of 32% (20% income tax plus 12% employee's national insurance contributions), with a higher rate as at present on higher earnings. Rates of 20% are assumed for pensioners and of 20% for investment income.

The total cost in 2012-13 of benefits and tax reliefs and allowances (excluding benefits related to disability or housing costs) that would be replaced is as follows:

Child Benefit and Child Tax Credits	£34 bn
Working age benefits (Income Support, JSA, etc.)	£27 bn
Working Tax Credits	£7 bn
Administrative savings and Tax Credits written off	£10 bn
Student grants and loans written off	£3 bn
Personal Allowances (income tax)	£68 bn
Primary Threshold and self-employed reliefs (NI)	£23 bn
State Retirement Pension, SERPS, S2P, Pension Credit, and MIG	£90 bn
Higher rate tax relief on pension contributions	£10 bn
Total	£272 bn

The total cost of the proposed scheme is as follows:

Age	Census 2011	Citizen's Income per week	Cost in 2012-13
0 to 15	11.9 million	£56.25	£35 bn
16 to 24	7.5 million	£56.25	£22 bn
25 to 64	33.4 million	£71.00	£124 bn
65 and over	10.4 million	£142.70	£77 bn
State pension entitlements in excess of CP rate			£15 bn
	63.2 million		£273 bn
Running costs (1%)			£3 bn
Total cost p.a.			£276 bn

We assume that tax relief for pension contributions will be restricted to 20%, the same as the rate of income tax deducted from pensions in payment. Running costs are estimated at one per cent, which is the approximate cost of administering Child Benefit (non-contributory, non-means tested, non-taxable).

That the UK can afford a Citizen's Income scheme is also illustrated by the fact that per capita GDP was £478 per week in 2012-13 (Public Sector Finances Databank).

For further details of these cost estimates please request our introductory booklet, or download it from our website.

6 Transitional arrangements

There will be clear winners under the Citizen's Income system proposed here, in particular:

- earners with low or fluctuating incomes
- students
- self-employed workers
- families (with children) on low to average earnings
- pensioners with small savings and pensioner couples

It is also clear that if the Citizen's Income scheme were adopted outright then transitional measures will be required for

- single parent households in receipt of Tax Credits
- women aged under 65 eligible for the state pension
- civil servants at Her Majesty's Revenue and Customs and the Department for Work and Pensions who will have to be retrained or made redundant.

The Citizen's Income scheme outlined here ignores the fact that some residents have not been in the UK long enough to qualify, and it also ignores pensioners living abroad who receive a state retirement pension. The two issues will probably cancel each other out so that a negligible overall cost or saving will result.

7 Housing-related benefits

The Citizen's Income scheme outlined here has ignored Housing and Council Tax Benefits, which cost around £29 bn annually. We are aware that housing-related benefits need radical simplification and reform but we believe that to be a separate debate and not directly related to the implementation of a Citizen's Income scheme. Housing benefits are usually paid to households whereas it is fundamental to a Citizen's Income that it is paid to individuals.

The Citizen's Income Trust

The immediate reaction of most people when introduced to the idea of a Citizen's Income is one of incredulity. It sounds too good to be true. The *Basic Income Research Group* was set up in 1984 to promote debate on the feasibility and desirability of a Citizen's Income. (*BIRG* was renamed the *Citizen's Income Trust* in 1992).

The *Citizen's Income Trust* is not a pressure group, nor is it aligned to any political party. It publishes a regular *Newsletter*, maintains a website and a library, responds to requests for information, and undertakes research projects directly related to its aims. The Citizen's Income Trust is a registered charity, no. 328198

The Citizen's Income Trust would like to thank Mark Wadsworth, Chris Stapenhurst and Professor Ruth Lister for their help with this poster.

How you can help

If you are interested in reform of the tax and benefits system, why not join our mailing list?

Email your contact details to info@citizensincome.org

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CITIZEN'S INCOME TRUST