

BIRG

BULLETIN

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BASIC INCOME RESEARCH GROUP BULLETIN AUTUMN 1985

FOWLER – OUT OF TOUCH
Robert Morley

BASIC INCOMES AND A NATIONAL MINIMUM WAGE
THE DEBATE ABOUT COSTINGS

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The Editorial Committee includes the following members of the Research Panel of the Basic Income Research Group: Hermione Parker (Editor), Evelyn McEwen, Bob Morley, Susan Raven and Peter Ashby.

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BIRG BULLETIN

BIRG EDITORIAL, Autumn 1985

FOWLER'S LADLE

After an extended period of gestation the Government brought forth in June one of the most extraordinary Green Papers in recent history: a plan for reform of Britain's £40 billion social security system with almost no costings or examples of how the reform would work in practice. And when asked on television what had happened to his figures, the Secretary of State replied that these had not been published because they were less important than the principles involved.

Yet anybody who understands social security knows that the arithmetic is all-important, not just because of the distributional effects but also because all systems and all proposed new systems tend to throw up unintended consequences. In 1984 Hermione Parker published a quantitative comparison⁽¹⁾ of six different tax and benefit systems, the existing one and five alternatives. By subjecting each set of figures to the same criteria she was able to deduce the likely effects of each proposal on living standards, incentives and family life. All sorts of unexpected consequences became apparent. And her main conclusion was that principles are not enough. The first priority must be "to cut through the humbug and go for a system that works".

Assuming that the Secretary of State publishes the missing figures in time, we hope to publish a similar quantitative comparison between the existing system, the "Fowler" system and a modified Basic Income option in the next issue of this Bulletin. Meanwhile in this issue we open up the debate about the labour market effects of basic incomes with a Viewpoint article by Robin Smail of the *Low Pay Unit*, who argues the case for a two-tier basic income and a national minimum wage, and with an analysis by Bill Jordan of the likely effects of basic incomes on exploitation. It is the policy of the Editorial Committee to encourage informed debate, therefore readers should not expect every contribution to follow the same line. Bob Morley of the *Family Welfare Association* gives his reaction to the principles of reform in the Fowler Green Paper. Hermione Parker casts doubt on the Institute for Fiscal Studies methodology for costing basic incomes.

And we also publish evidence submitted by the BIRG Youth Group to the Liberal Party Working Commission on Student Awards. This article is of special relevance because it highlights a yawning gap in existing social security arrangements (the inadequacy of income support for students and trainees) that is completely overlooked by the Green Paper. Lack of income support for trainees is one reason for Britain's high level of unemployment and lack of competitiveness. But it seems that nothing can be done about it, because there is no Government Minister with overall responsibility for the whole of income support. Responsibility for students lies with the Department of Education, for trainees with the Department of Employment, and for the unemployed with the DHSS. The preservation of departmental boundaries is treated as more important than the prevention of unemployment.

The DHSS Green Paper claims to set out "a new approach to social security . . . which is capable of meeting the demands of the next century". The strategy, based on traditional contingency benefits and a partnership between the individual and the State, is almost identical to that of Beveridge. We will return to that later. The method, however, has important differences. One, as Bob Morley points out in "Out of Touch", is Fowler's approach to the assessment of need. Another is Fowler's greater reliance on means-testing.

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2 Having diagnosed the causes of poverty, Beveridge set out his recommended benefit rates, using systematically-based estimates of the weekly expenditures necessary for food, clothing, fuel and so forth. Beveridge's estimates are long since out-of-date, because needs as well as costs change with time. What is worrying is that the Green Paper makes no attempt to update them. Living standards on benefit in 1948 and 1985 are compared simply by applying the retail prices index, which is of course extremely misleading. What is needed is a new basket of goods and services, appropriate to 1985, and new costings. These should take into account the changes in living conditions which have taken place since 1948, for instance housing without open fireplaces, roads too busy to allow children to walk to school, jobs and job opportunities no longer within easy reach of home.

Without new, systematically-based estimates of needs and costs in 1985 nobody has the slightest idea of how much money families of different sizes and different composition require in order to live at a "modest but adequate" living standard, or indeed at any other standard. Thus if the Secretary of State's review teams had looked further into the matter, and had examined the work done on family budget standards in Europe and North America, they perhaps would not have recommended *lower* rates of income support for the under 25 age group. For the evidence from both sides of the Atlantic underlines the *extra* needs and costs of young adults, especially young marrieds just starting their families.

With his benefit rates set, Beveridge then insisted that "to give the fullest possible encouragement to voluntary insurance and saving, it is important to reduce to a minimum the cases in which assistance has to be given subject to consideration of means". This is an argument with which Fowler clearly disagrees, although he nowhere produces a counter-argument which refutes it. Increased means-testing is a central part of the Green Paper's strategy. Although theoretical marginal tax rates of over 100% (the most extreme manifestations of the *poverty trap*) will be removed, far more families than before will be affected by marginal tax rates of 80% or even 90%. And although the *unemployment trap* in its most publicised form (out-of-work married man with two children) may improve, the Green Paper leaves untouched, or aggravates far too many disincentives for lone parents, invalidity and retirement pensioners, and many others. It is after all not just a question of being discouraged from working and saving. Many people see themselves as *prevented by law* from trying to stand on their own feet.

Fowler rejects systems which are fully means-tested (for example the proposals for reform of social security by the Institute for Fiscal Studies), and likewise he rejects systems which are fully universal (for instance a full Basic Income system). He goes for a mixture of universality and selectivity, and most people who have tried to work out and cost alternative systems would agree. But he also carefully avoids any mention of modified Basic Income Guarantee schemes, although these use a mixture of means-tested benefits and universal basic incomes. Could the Prime Minister's personal abhorrence of "tax credits" and

"negative taxes" have perhaps played a part?

The universality *versus* selectivity debate is in any case "old hat" by comparison with the new debate, not touched on anywhere in the Green Paper, about the basis of entitlement. *Should benefit entitlement be based on contingency (unemployment, sickness and so forth) and marital status, or should it be based on assessed basic needs regardless of work or marital status, with each individual a separate tax/benefit unit?*

These are the crucial questions now increasingly being asked both at home and abroad, and it is astonishing that Fowler does not ask them. With over 3 million unemployed, and with expenditure on lone parents at over £1,000 million in 1983 compared with £15 million in 1960, why does Fowler accept the Beveridge strategy without question? Was it an oversight, or was it guile? Are we to believe that nobody on the review teams and none of his civil servants ever raised doubts about the continuing viability of a social security system based on benefits paid "for loss or interruption of earnings", with archaic dependency additions, in the post-industrial world of micro-chip technology and women's emancipation? It seems unlikely.

Far from producing a new system capable of meeting the demands of the 21st century, Fowler is dragging us back into the 19th. Beveridge was behind the times in his notions about family life, but he made no bones about the need for full employment if a contingency-based social security system is to function satisfactorily. Full employment was a basic assumption of the Beveridge Plan, and Beveridge listed five reasons why a contingency-based social security system cannot operate without it.

When the sink overflows most people turn the tap off, or check the waste. Fowler prefers a ladle. Instead of looking to the causes of run-away spending he tackles the symptoms, cutting benefits instead of changing the system, relying more instead of less on marital status as a criterion for benefit entitlement, with reduced benefits for parents who stay together and new premiums for divorce and separation. With a strategy like this it is only a matter of time before the whole exercise will need to be repeated. More benefit cuts and more disillusion will remain the order of the day, until the government confronts the big issues and genuinely undertakes "a new approach to social security".

(1) *Action on Welfare* Hermione Parker. Social Affairs Unit, 2 Lord North Street, London SW1.

OUT OF TOUCH

THE FOWLER REFORMS OF SOCIAL SECURITY

ROBERT E MORLEY

The Secretary of State has repeatedly claimed that he has been engaged on the most substantial review of social security since Beveridge. Now that the outcome of these deliberations has been published,⁽¹⁾ some of us are left wondering whether the claim applies more to the price of the Green Papers (£26.60) than to their contents. For the proposals leave the main structure of social security untouched. Supplementary Benefits become Income Support; Family Income Supplement is reorganised and becomes Family Credit; Housing Benefits remain, but are reduced. The sum available for single payments with the new income support is to be curtailed and a totally unacceptable Social Fund established to administer them. All the major contributory benefits are left untouched and unexamined, except for State Earnings Related Pensions which will be phased out by the end of the century, and replaced by a combination of public basic provision and private earnings-related pensions.

If the detailed proposals amount to a less than substantial change, the assumptions upon which they are based seem to have been taken over from Beveridge without modification and without examination. Women are to remain firmly dependent upon the main breadwinner, and family support is securely in the hands of the wage earner, through the wage packet. "Family Credit", we are told in para 8.12 of Vol 1, "will be an integral part of the take-home pay of the wage earners in low income families. It will put such families in a position where they can see more clearly the level of income on which they can depend and on which they need to plan their lives." The author of these words seems not to realise that many wives do not know what their husbands earn, even in these enlightened days; and that many of them will suffer a double loss, first of the payments which would have come to them independently and secondly when their husbands do not hand over the full amount of the Family Credit, a sum which in any event may be difficult to distinguish from the wage itself.

The current system of paying Family Income Supplement and child benefits direct to the wife, quite separately from the wage packet, represents a hard-won step towards women's independence, and towards an income which a wife can manage and control without reference to her husband. Although the sums involved may be meagre (even by comparison with low wages), the current system at least acknowledges the need for married women with children to have an independent income. By contrast the Fowler proposals push women back into a position of dependence on their husbands.

At pensionable age women will be doubly disadvantaged. The decision to abolish SERPS in favour of

compulsory private pensions assumes that wives will share in their husbands' pension rights. Yet even where a marriage persists into pensionable age, so that the wife does gain the advantage of her husband's occupational or other pension, it does not necessarily follow that this advantage will continue into widowhood. The interesting figures given in the Background Papers (para 1.29) show that 35% of all widows, and 40% of those over 75, were supported by Supplementary Benefits. This suggests that even if they were supported by the husband's occupational pension while he was still alive, this advantage disappeared at his death. In fact, a significant number of occupational pensions do not include provision for a widow's pension, and if this continues to be the case the assumption of women's dependence within the family will leave many widows in poverty.

Nor is any account taken of the possibility of marriage breakdown. With the divorce rate running at a level of one in three marriages this seems a curious oversight. Even though divorce is often followed by re-marriage, a large number of people, and more women than men, remain unmarried (Social Trends 15, 1985). And women who have not remarried by pensionable age will be without the benefit of a widow's pension even if one was available in the previous husband's occupational pension. SERPS, which allows for the best 20 years of earnings to be used for assessment of final pension, is particularly valuable to women generally and especially to the divorced who need to establish an adequate contribution record before they reach pensionable age. They will do less well in the private pension market and the position of widows and single women in old age is likely to continue to be as black as has been revealed in the Background Papers.

It is not only women who are assumed to be dependent on the family but also anybody under 25. Para 2.73 of the Programme for Change (Vol. II) says "... it is clear that at the age of 18 the majority of claimants are not fully independent and that the great majority of claimants above the age of 25 are." The Background Papers offer no evidence that the majority of claimants under 25 "were living in somebody else's household," although Social Trends 15 (page 128) comments that "Rather more of the sons and daughters of owner-occupiers were still living with parents and other relatives at age 23 than of the sons and daughters of tenants; this is likely to be associated with social class rather than tenure." In fact, only 37% of all 23-year-olds were living in "somebody else's household." Yet, under the Fowler reforms, all those under 25, married and unmarried, with and without parents to fall back on, will be treated as if they were dependent upon their parents - unless they are themselves lone parents, when they will receive the lone parent premium and the over-25 rate of benefit. There could hardly be greater encouragement for young single unemployed women to become lone parents.

The foregoing is just one example of what may occur if reform proposals based on middle class preconceptions about family life are coupled with attempts at simplification which involve categorising claimants not by need but by status (such as over 25, lone parents, heads of families, elderly, or disabled).

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The Green Papers are weakest when they are dealing with need. No attempt is made to assess need. Indeed the only reference to need occurs in Vol 1, where the first of the main objectives underlying the reform is spelled out. It is that the social security system must be capable of meeting "genuine need". But "genuine need" remains undefined, except for a further sentence which suggests that what may be in mind is the Victorian distinction between the deserving and the undeserving: "No individual should be left in a position where through no fault of his own he is unable to sustain himself and his family" (Vol 1 para 1.12). Presumably anyone in difficulty through their own fault will be left to suffer – along with his blameless family. Having made this distinction, the Green Papers go on to make the astonishing assertion that since the Beveridge Plan was published 40 years ago **"... living standards generally have improved substantially and want – in the sense of absolute deprivation – has been largely eliminated."** (Para 1.48 Vol 3.)

This bold statement is offered without supporting evidence of any kind. It will come as a surprise to many charities, who find themselves faced with a rising tide of poor people seeking help with the basic essentials of life, such as warm clothing and weather-proof shoes for themselves or their children, or assistance to meet the costs of heating to keep them alive during the winter. Even more surprised will be the families driven to feed their hungry children on nothing more nutritious than baked beans on toast several times each week.

To many people such deprivations would be absolute enough, and they would find it even harder to believe that

"Beveridge's concept of a subsistence minimum has given ground to the notion of a relative minimum with all groups in society having a share in the long-run increase in national prosperity." (Para 1.48 Vol 3.)

After this one might expect the Green Papers to propose ways to share this increase in national prosperity. But despite the genuflection towards greater egalitarianism, there is no discussion of what a basic level of subsistence is, or how far prosperity should be shared.

When Beveridge proposed his insurance scheme to meet the various contingencies of unemployment, sickness, disablement and old age, he went on to investigate the level of support at which income maintenance provisions should be set. That these were, and remain, too low does not invalidate that process.

But the Fowler Green Papers have nothing to say about needs or the level of income below which nobody should be allowed to fall. Any reform of social security laying claim to be radical and substantial would surely have begun at this point. For a major defect of the current system is that it still relates to standards first set in the York studies at the end of the 19th century, modified in the 1930s, and simply carried into the 1940s and beyond by Beveridge. There has been some reassessment of children's allowances, and unofficial attempts to assess their needs have been published from time to time. But no authoritative

review of need, relevant to modern circumstances in Britain, has been undertaken recently. Yet it is urgently required if social security provisions are to be set at a level which will keep people out of poverty and enable them to share in the "long term increase in national prosperity". It is not enough for the Green Papers merely to categorise poverty as the poorest fifth of the population – 70% of whose income is shown to come from social security payments – and to target its help on them; for the next poorest fifth gets 50% of its income from social security also.

In the long run, tax and benefits will have to be more closely integrated than is the case at present, and the tax/benefit unit will have to become the individual rather than the family. The Institute for Fiscal Studies has claimed that the Fowler reforms are a step towards this objective. But except for the proposals to make the same assessment of income for all means-tested benefits, and, in respect of Family Credits, to test income net of tax, there is very little in the Green Papers which move us far along that road. The tax/benefit unit remains the family and until the promised Green Paper on Tax Reform no re-examination of that principle is to be undertaken. Child benefit, although retained as a universal benefit, has been undermined as an element in the move towards integration by the failure to up-rate it in line with inflation, or with tax allowances. And there is a strong suspicion that, like some of the other benefits destined to disappear, the value of child benefit will be allowed to wither away until some future Government can claim that it is no longer worth keeping, and its status as the first element in the integration of tax and benefits will have disappeared.

A number of the proposals in the Green Papers show signs of lack of real thought and, as we now know in relation to SERPS, of quite unexamined last-minute changes of mind. Let us hope that the discussion now taking place in Parliament, and elsewhere, will persuade the Government to undertake a really substantial review of social security, starting from fundamental principles and building more securely on that foundation.

If the problem of the level of need to be met is resolved as a first step, then the Basic Income scheme has great potential in meeting the Government's objectives, in being simpler to understand and simpler to administer than anything proposed by the reviews. It could also meet other objectives, such as removing the poverty and unemployment traps in a less complicated way. A really radical and substantial modification of social security could result.

(1) Reform of Social Security Cmnd 9517, Reform of Social Security: Programme for Change Cmnd 9518, Reform of Social Security: Background Papers Cmnd 9519 and Housing Benefits Cmnd 9520.

Robert Morley is director of the Family Welfare Association. Each year his organisation handles about 3000 applications for money to pay fuel bills and to buy essential clothing, furniture and so forth. Files at the FWA headquarters in Kingsland Road, Hackney, reveal living styles so far removed from the complacency of the Green Papers as to be barely recognisable as belonging to the same country.

THE DEBATE ABOUT COSTINGS

HERMIONE PARKER

The debate about costings is hotting up and is of central importance, because the attractions of the basic income concept are misleading if the tax rate necessary to fund it is unacceptably high. In Bulletin No 3, I argued that a full BI system (with basic incomes high enough to make means-tested benefits unnecessary) would require very high tax rates, but that a modified BI scheme (using a mixture of universal basic incomes, selective basic income supplements and means-tested housing benefit) could be funded using a new progressive income tax with a starting rate of 40%, and a top rate of 60%. That starting rate is only 1% higher than the sum of existing income tax at 30% plus national insurance contribution at 9%.

My figures are the subject of a growing controversy. BI enthusiasts think I exaggerate the financing difficulties, whilst BI opponents maintain that even a modified BI system would be too expensive. Most influential among the BI opponents is the Institute for Fiscal Studies (IFS). They dislike the whole concept of basic incomes and are out to "rubbish" it. Their own approach to social security is well known, having been widely publicised during the past year.⁽¹⁾ They recommend that *all* social security benefits except unemployment benefit should be means-tested, and for married couples the means test would take into account the joint incomes of husband and wife. Small wonder therefore that the BI concept of fully independent tax and benefit units, with each man, woman and child an equal citizen, is anathema to the IFS. Wives and children are regarded as dependents of the "male breadwinner", and should remain so.

Using their own tax and benefit computer model (based on the 1982 Family Expenditure Survey or FES) the IFS made an analysis earlier this year of "BIG" options 1(a) and 3(a), and concluded that the starting rate of the new income tax would need to be 50%, not 40% which I had estimated.⁽²⁾ "Too expensive", they say, and most people believe them. *But are they right?* In this article I shall explore some of the complexities involved, and I shall question the validity of the IFS figures.

TWO METHODOLOGIES

There are two ways to cost basic incomes. The first, which I prefer, uses a mixture of national accounts statistics, the Family Expenditure Survey (FES) and the

Survey of Personal Incomes (SPI). It is based on Meade 1972,⁽³⁾ refined in line with Atkinson 1984,⁽⁴⁾ and with tax base figures supplied by the Inland Revenue for Sir Brandon Rhys Williams MP. In my costings the figures for "BIG" housing benefit, administrative costs and revenue from the new higher rate tax bands are all provisional, but are unlikely to alter the estimated starting rate of the new income tax by more than five percentage points either way. The formula, which was explained in Bulletin No 3, runs as follows:-

$$T = \frac{BI + HB + Admin + IT/NIC/ACT - S - PRT - HRT}{\text{New IT base}}$$

WHERE:

T = starting rate of new basic income tax

BI = cost of the proposed basic incomes and BI supplements

HB = cost of the proposed new housing benefit

Admin = cost of administration

IT/NIC/ACT = cost of abolishing existing income tax, national insurance contribution and advance corporation tax

S = saving on existing benefit expenditures

PRT = revenue from proposed 10% employers' payroll tax

HRT = revenue from proposed new higher rate tax bands

New IT base = new income tax base, assuming abolition of existing income tax reliefs and allowances

The second methodology (used by the IFS) relies wholly on the Family Expenditure Survey. The IFS start their analysis by calculating average net incomes under the existing system for just under 9,000 families in the FES sample, assuming 100% take-up of all benefit entitlements. Although they include some of the passport benefits available with supplementary benefit (SB) and family income supplement, they do not include the value of single payments and additional requirements with supplementary benefit. Nor, presumably, do they include educational benefits such as educational maintenance allowances or discretionary grants which vary from area to area. They then calculate average net incomes under "BIG" 1(a) and 3(a). And every £1 per week by which average net incomes under "BIG" exceed average net incomes under the existing system is said to involve a revenue shortfall of about £1,000 million per annum, and to necessitate an extra 1% on the starting rate of the new "BIG" income tax.

Now although in theory these two methodologies should produce approximately similar results, in practice they do not, and this is not surprising. At this stage it is not possible to ascertain which (if either) is correct. But it is possible to analyse some of the reasons why the discrepancies occur. And this process makes some of the IFS figures look very odd indeed.

THE COSTING YEAR SHOULD BE 1982-83

For their costings the IFS chose financial year 1984-85, although no "BIG" schemes for that year have so far been costed, the 1984-85 basic income figures supplied being clearly described as illustrative only. The chances of the two methodologies coinciding are in any case bound to reduce as the costing year moves away from 1982-83, that being the year of the most recently published SPI and of the FES on which the IFS model is based. For instance, between 1982-83 and 1984-85 aggregate earnings increased faster than the index of average earnings; hence there is almost bound to be a discrepancy between the IFS estimate of incomes in 1984-85 and the Inland Revenue projected "BIG" income tax base for 1984-85.

INCOMES IN THE FES ARE UNDERSTATED

Even if the comparison used 1982-83 figures, it would be necessary to allow for the fact that FES respondents notoriously understate their incomes, and also for the fact that the FES refers to 1982 whereas the SPI (used by the Inland revenue for the tax base figures) uses the financial year 1982-83.

£10,000m IS 5% OF £200,000m, NOT 10%

According to the IFS analysis "BIG" 1(a) and 3(a) would increase net incomes by an average of about £10 a week, producing a revenue shortfall of £10,000 million a year. To be revenue neutral, says the IFS, the starting rate of the new income tax must be increased to 50%.

The arithmetic of this is rather baffling, for the Inland Revenue has estimated that the "BIG" income tax base in 1984-85 would be about £200,000 million, and $\frac{10}{200} \times 100$ is 5%, not 10%. The IFS figure seems to have its origin in a ready reckoner used to calculate the effects of budget and other changes in the *existing* system, and it seems to assume (incorrectly) that with "BIG", as with the existing tax system, over half of all personal incomes is tax-free.

GARBAGE IN . . . ?

Computer professionals emphasise the dangers of what they call "GIGO" (garbage in, garbage out). What comes out of a computer depends on what goes in, that is on the assumptions made and on the accuracy of the input figures. The IFS analysis sets out examples of net income calculations for ten different households under the existing system and under the two "BIG" options. Out of these ten examples six contain errors and two are doubtful. Some of the errors are small (mistaken supplementary benefit entitlements, miscalculation of "BIG" tax liability), and some are large (no child benefit for household number 7, and payment of earnings related pension under the "BIG" options which abolish earnings related pension).

The IFS analysis shows 270 pensioner couples still dependent on housing benefit under "BIG" 1(a), compared with 1,016 dependent on housing benefit under

the existing system. Yet pensioner couples would receive basic incomes and BI supplements totalling £105 a week. They would not need housing benefit.

Without a complete re-run it is not possible to pick up all the possible IFS inaccuracies. Nor is it possible to calculate the effects of excluding payments made under the existing system (eg SB single payments, educational grants and allowances) which are abolished under "BIG".

EFFECTS OF ABOLISHING TAX RELIEFS

Although the IFS model takes into account the effects on net incomes of abolishing mortgage interest tax relief and of removing income tax reliefs on private pension contributions, it does not take account of the extra revenues which would accrue as a result of taxing pension lump sums, the investment income of pension funds and employers' contributions to private pensions. The extra revenue in 1983-84 terms is probably between £3,000-£4,000 million a year.⁽⁵⁾

When the IFS, and others, challenge my costings on the grounds that there are too many gainers, these are some of the items they forget. Yet if the Chancellor were to raise tax thresholds and child benefits by amounts costing £4,000 million, most families participating in the FES would appear to benefit, because the losses (to pension funds and recipients of lump sum payments) would not show through.

It is of course one of the objectives of "BIG" to recirculate tax expenditures from house purchase, private pensions and so forth into the pockets of the average taxpayer. This may or may not be politically acceptable. But that is no reason for the IFS to exclude it from their costings.

ADMINISTRATIVE SAVINGS

Nor can the IFS model pick up the effects of administrative savings as a result of integrating the tax and benefit systems. These savings are extremely hard to estimate, not least because they would take many years to feed through. Yet the potential savings are enormous. The existing tax and benefit systems have spawned layer upon layer of public sector (as well as private sector) involvement in welfare rights. Local DHSS officials, social workers, health visitors, housing officers, family practitioners and many others (all paid by the taxpayer) are using valuable time trying to help people get the benefits to which they are entitled. Of course there will always be a requirement at local level to look after people with special needs and in special circumstances. But if most benefit payments and all income tax and national insurance contributions were replaced by a single weekly (or monthly) computerised, automatic GIRO transaction, if the cohabitation rule were abolished and if all earnings restrictions were lifted, administrative costs could be reduced to a tiny fraction of their present cost. At local level a unified cash and care service could concentrate on cases of special need, and, with more time to devote to individual case work, the officials involved would find their work more rewarding and more fruitful.

DYNAMIC IMPACT OF RADICAL CHANGE

Finally, and perhaps most important of all, neither the IFS costings nor my own take into account the dynamic impact of radical change on the economy. This

point was emphasised by Professor Michael Beenstock at a recent Policy Studies Institute seminar, and he is absolutely right. Far more significant in the long-term than hypothetical costings for years gone by is the future impact of radical change on the labour market, the black economy and the tax base. A system which encourages economic growth can succeed. A system which undermines work and savings incentives, or drives them underground, is most unlikely to succeed for long.

The IFS proposals for reform of social security would subject over 30% of families with children to 85% marginal tax rates, and the Secretary of State's Green Paper proposals seem likely to have a similar effect, although with rather fewer families affected. The IFS proposals would also subject virtually all retirement pensioners to marginal tax rates of 55%. It is idle to suppose that work incentives and voluntary savings would not be affected. Costings which look reasonable in year one would look quite different if the proponents of new schemes were able to use a reliable, dynamic model of the economy, which showed up the long-term effects of (for instance) high marginal tax rates on economic growth and on the tax base.

This is not to say that "BIG", or indeed any other modified BI scheme, is the perfect answer. Of course not. Experience from negative income tax experiments in the USA and econometric evidence from this country both suggest that BI schemes would reduce labour market participation rates among married women. Some people argue that this would be a good thing. But not, surely, if it reduces the tax base. The answer may be to build into the modified BI schemes some sort of earned income tax relief, or tax relief for work expenses. The Inland Revenue abhors these sorts of tax relief but they are the usual practice elsewhere in the European Community and in North America. Tax relief for work expenses would be especially beneficial to women with young children, because they would be able to set the cost of child care against their income tax.

CONCLUSION

The IFS model provides an excellent ready reckoner for estimating the effects of budget or other changes within the existing tax and benefit systems. But it is not suited to estimating the effects of radical change over a long period. Indeed, since no one is suggesting that any BI scheme be introduced overnight, but rather over a ten year period, the IFS model is downright misleading. And the analysis which the IFS made of two "BIG" options contains inaccuracies which almost certainly invalidate their final conclusion.

(1) *The Reform of Social Security* A. W. Dilnot, J. A. Kay, C. N. Morris IFS 1984

(2) *Basic Income Guarantee*. Analysis on IFS Tax Benefit Model based on the 1982 FES. IFS 1985

(3) *Poverty in the Welfare State*. J. E. Meade. Oxford Economic Papers Volume 24 No 3. 1972

(4) *The Costs of Social Dividend and Tax Credit Schemes*. A. B. Atkinson. ESRC Programme on Taxation, Incentives and the Distribution of Income. Discussion Paper No 63. 1984

(5) *Cost of Tax Relief for Pension Schemes: appropriate statistical approach* Board of Inland Revenue September 1983

BASIC INCOMES & YOUNG PEOPLE

BY THE BIRG YOUTH GROUP 2. THE PROBLEM

The following article is based on evidence submitted by BIRG's Youth group to the Liberal Party's Working Commission on Student Awards, set up earlier this year in response to the Government's Review of Student Awards with Clement Freud as Chairman.

In April the Liberal Working Commission published a discussion document which advocates a weekly allowance during term time of £26.25 for everyone aged 16 or over in full-time education, with supplements from age 18 for housing, travel and course costs. BIRG's Youth Group is disappointed that it retains the traditional distinction between academic and vocational education; BIRG will continue to advocate a system of income maintenance based on assessed need instead of on implicit value distinctions between the different causes of need.

1. EDUCATION, TRAINING AND INCOME SUPPORT

The aim should be to provide first-class educational and training opportunities of all sorts PLUS the income support necessary to ensure that no one is prevented for financial reasons from taking advantage of them. The costs should be recouped through the income tax system. Income tax is by far the most acceptable means test, and a progressive income tax (with a narrower standard rate band than at present) would ensure that part of the increased earnings obtained by former students and trainees as a result of their tax-funded education would in due course be clawed back through the tax system. A system of loans would merely produce unnecessary complexity and unnecessary bureaucracy.

The whole of our society stands to benefit from a well-educated, well-trained workforce. Increased expenditure on training and education today means less expenditure on unemployment benefits in the future. The German economy is a good example of this philosophy put into practice.

The main problem in the UK is the complete lack of any coherent strategy. Income support for students and trainees is a departmental no-man's-land, for which no Government Minister is prepared (or able) to take responsibility. No British government has ever looked at the problem of income support during education/training for the 16-24-year age group as a whole. And consecutive British governments have under-estimated the importance of income support during training and re-training throughout the life cycle. In effect there is no safety net for students and trainees. There never has been. Here is a yawning gap in the social security system which has major implications for economic efficiency and economic growth, yet of which most people are totally unaware. The supplementary benefits system was not intended for students and trainees, and is a thoroughly unsatisfactory alternative to guaranteed basic support. It is much too complex and often discriminatory. Hence the much-criticised 12 and 21 hours rules, which allow unemployed young people to do limited study/training without losing entitlement to supplementary benefit. These are better than nothing, but too limited. Government is concerned that the 12 and 21 hours rules should not become a secondary grant system. But it gives the impression that Government prefers enforced idleness to constructive study.

Responsibility for income support during education and training is split between at least four central government departments as well as numerous local authorities, except in the case of employer-sponsored training, for which generally speaking no public funds are available. (See TABLE 1). The fact that the Secretary of State for Education was able to change regulations for students at the same time as the Secretary of State for Social Services was conducting his review of income support for children and young people shows how little co-ordination exists between the different Departments of State. Over the period of a year a student may have to deal with five different authorities, all on questions of finance. Nobody knows the costs of administering the present hotch potch of arrangements. But it would be astonishing if rationalisation did not produce significant savings, which could then be channelled into the pockets of hard-pressed students and trainees.

TABLE 1: Sources of income support from public funds available to students and trainees

- (i) **Non-advanced further education (age 16-19)**
 DHSS:- child benefits (payable to parents) £6.85
 supplementary benefit, family income supplement and housing benefit, all through parental entitlement
 – limited access (12 & 21 hours rules) to SB through own entitlement
 LEAs:- education maintenance allowance and free school meals, again through means tests on the income of the parents.
- (ii) **Manpower Services Commission-sponsored training**
 e.g. YTS: £26.25
 TOPS: £38.00 plus dependants' allowance etc.
- (iii) **Advanced education (degree and comparable level)**
 DES (LEAs administer): mandatory awards including mandatory dependants' allowances
 DES (DHSS Students Unit administrators): "Hardship Scheme" allowances for qualifying students with dependants who do not qualify for mandatory allowances
 LEAs: discretionary awards
 DHSS: (a) Supplementary benefit
 (b) Family income supplement
 (c) Help with NHS charges
 DHSS (local authorities administer): Certificated (SB linked) housing benefit and standard (old rent allowances/rate rebates) housing benefit
 DE: unemployment benefit
 Inland Revenue: single person's and married man's tax allowances/parental deeds of covenant
- (iv) **Employer-sponsored training (excluding YTS)**
 DHSS: NIL. Except in the case of lone parents who can draw SB (tapered earnings disregard) because they do not have to be "available for work"
 DE: NIL. Automatic disqualification from unemployment benefit, because "not available for work"
 DES: NIL
 Inland Revenue: Single person's and married man's allowance

Even TABLE 1 underestimates the full complexity of the situation. For instance the "catch 22" faced by women, particularly single women, who wish to train for work: neither the MSC nor the DHSS will take responsibility for payment of childcare costs while the women are training.⁽¹⁾

3. RESULTS OF THE PRESENT SYSTEM

Results of the present approach to education and training can be summarised as follows:-

(i) **It is incomprehensible.** Schemes come and schemes go, so fast that even the experts are hard put to understand them.

(ii) **Planning ahead is impossible.** Planning ahead, by either students or the parents, is a waste of time, because award regulations and award availability are both in a constant state of flux. Nor is there any protection for students already embarked on courses (abolition of minimum grant and travel cost changes presume that the extra money will be found somewhere). The availability of discretionary awards depends crucially on the size of the rate support grant. Some areas can afford to be more generous than others.

(iii) **It is arbitrary and unfair.** People in similar circumstances are treated differently. Means-tested awards are supposed to concentrate assistance on those most in need, but in practice this is not so. No account is taken of capital wealth; indeed a large mortgage reduces parental contribution. Good accountants can "conceal" the profits of the self-employed. And where parents are divorced or separated, the income test is

applied to the parent with whom the student has the closest relationship (normally the mother), regardless of the wealth or income of the other parent. Tax covenants, which are encouraged because they reduce the cost of the parental contribution to parents, have the effect of reducing the amount which the student of "rich" parents can earn free of tax by comparison with his peers. Thus the student on maximum award can earn £2005 tax free to top up his grant, while the student on minimum grant may well have to pay tax on all his earnings. And from October 1985, when minimum grant is abolished, the maximum allowable deed of covenant may be less than the parental contribution for some students.

(iv) **It wastes human capital.** Millions of unemployed people are paid benefits *on condition they do nothing*. They are locked into poverty, penalised if they try to learn new skills. Only MSC-sponsored trainees qualify for training allowances. And only lone parents can train without forfeiting supplementary benefit. An employer who has a training place to offer with perhaps the certainty of a job at the end must try to pay a training wage which competes with DHSS supplementary benefit *grossed up* for income tax and national insurance contributions, because the potential trainee forfeits entitlement to any State income support *and* is charged tax on the trainee wage. Of course some people do nevertheless train and somehow manage. But others reject training possibilities.

(v) **It encourages higher education at the expense of non-advanced further education.** There is no sense in a system of income support which divides young people into sheep and goats, with preferential treatment for students on first degree courses, making other students and trainees pay their own fees *and* pay

TABLE 2: Pupils and students aged 16 and 17 in full-time education as percentages of relevant population, 1982-83

AGE 16			
Five Highest percentages		Five Lowest percentages	
	%		%
Isle of Wight	65.3	Gateshead	36.3
Barnet	60.7	Newcastle upon Tyne	35.6
Kingston-upon-Thames	58.7	Durham	35.5
Sutton	56.8	Oldham	
Hertfordshire	56.3	Liverpool	35.1
AGE 17			
Five Highest percentages		Five Lowest percentages	
	%		%
Bexley	45.9	Suffolk	21.5
Barnet	42.0	Knowsley	20.2
Kingston-upon-Thames	38.1	Barking	20.0
Solihull	37.4	Barnsley	19.8
Brent	37.4	Gateshead	17.9

tax on their trainee wages. No wonder there is a glut of (unemployed) graduates and a scarcity of technicians.

(vi) **It distorts the educational choices that young people make at 16.** The years 16 and 17 are the water jump which must be cleared between full-time compulsory school and an independent right to educational awards. A wrong choice at age 16 may prove extremely hard to rectify. Yet because the options are so complex, and because those which are probably in the best long-term interest of the 16-year-old (that is, further education or vocational training) entail continued dependence on parents, many 16-year-olds decide to leave school. The figures in TABLE 2 show a correlation between school-leaving age and the prosperity of the different UK regions. It is precisely in those towns where unemployment is highest (Liverpool, for instance, and Gateshead), and where the need to acquire skills is greatest, that children leave school the soonest. Thus it is that the present income security system helps to perpetuate the cycle of deprivation.

(vii) **It causes poverty and hardship.** As already explained, the supplementary benefits safety net excludes students and trainees. Students on first degree courses are "deemed" to be in receipt of the parental contribution, although the latest (1982-83) NUS survey shows that over 40% did not receive it in full. Yet students on first degree courses are the lucky ones. All the rest must rely on discretionary awards, on part-time earnings, support from their families and loans. In 1981 there were more than half a million single people, including students, who were living on incomes below supplementary benefit levels. Of those probably about a third had no entitlement. But the SB scale rates, which form the basis for the DHSS "Low Income Families" statistics from which this figure is taken, underestimate the extent of poverty among students and trainees, because they take no account of the extra costs incurred. Any new system of income support must take these costs (books, equipment and travel) into account.

4. AN ALTERNATIVE APPROACH

We in BIRG are looking for a system of income security which prevents rather than merely relieves poverty, and which emphasises the rights of the individual. A Basic Income scheme would aim to guarantee to each man, woman and child the unconditional right to an independent income sufficient to meet basic living costs. Although it may not be possible to achieve this aim in full, even a modified or partial Basic Income scheme would offer immense advantages by comparison with the existing system.

That is why we recommend that each student (including school students) and each trainee should be guaranteed the same equivalent basic income, regardless of the income or wealth of the parents. By equivalent basic income we mean that students with additional needs (equipment, field work and so forth) should receive higher basic incomes than those without. The cost to the taxpayer of student basic incomes would be recouped later on through the tax system. (See para 1.) This is the life cycle approach to income security. During periods when the individual cannot earn he or she is supported by the rest of the community (negative taxation). At other times the flow is in the opposite direction (positive taxation).

In a full Basic Income scheme every 16-year-old would graduate automatically to adult BI, without any conditions attached. The implications of this for choices between further study, training, employment and so-called "dropping-out" require further study.

The Basic Income approach to reform of personal income taxation and income support means replacing all the different forms of support currently available (cash benefits and tax reliefs) by a new structure of basic incomes and basic income supplements, which would automatically convert from cash benefit (where the recipient has no other income) to tax relief (where s/he has), and vice versa. Each student and each trainee would have an automatic right to income

support, and would also be free to do paid work without losing basic income, but would have to pay tax from the first £ of earnings.

The aim is to encourage everyone to reach his or her potential. A secondary aim is to reduce bureaucratic red tape. Administrative savings of up to £2 billion may well be possible; this money should be redirected.

Of course the Basic Income approach is no panacea. The article by Hermione Parker in the Spring issue of the BIRG Bulletin underlines the difficulties of financing. Nor could a Basic Income system be introduced overnight. It would probably take about 10 years. But this does not mean that nothing can be done right away to tackle the problems we outline. Once the target system is agreed and the target date selected *every intervening tax and benefit change must move in the required direction.*⁽²⁾

For students and trainees this principle is of immediate importance. Instead of abolishing minimum student grant it should be gradually increased, and extended to all students and trainees. This in essence is the short-term recommendation put forward by the National Union of Students in their recent discussion document "Grant Us a Living".⁽³⁾

- (1) Training and childcare costs: Child Poverty Action Group; National Council for One Parent Families; Project Fullemploy. January 1985.
 (2) House of Commons: Third Special Report from the Treasury and Civil Service Committee, Session 1982-3: *The Structure of Personal Income Taxation and Income Support*. May 1983. HMSO 386, pages xcii-xciii. And Appendices (20-11) page 184 *Moving towards a BIG Scheme*.
 (3) *Grant Us a Living*: A discussion document on student financial support. NUS February 1985.

The BIRG Youth Group comprises the following individuals:-

Peter Ashby (NCVO and secretary of BIRG)

Chris Hall (NUS)

Liam Hargadon (British Youth Council)

Paul Lewis (Youthaid)

Hermione Parker (Joint Chairman BIRG)

Doug Smith (National Youth Bureau)

BOOKS RECEIVED

FINAL REPORT OF THE SEATTLE DENVER
 INCOME MAINTENANCE EXPERIMENT
 SIME/DIME Distribution Centre, Department of
 Health & Human Services, ASPE, Humphrey
 Building, Room 410E, 200 Independence Avenue, SW,
 Washington, D.C. 20201. 1984. Free.

THE INCOME UNIT IN THE AUSTRALIAN TAX
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 Meredith Ann Edwards, 1984. Institute of Family
 Studies, 766 Elizabeth Street, Melbourne 3000,
 Australia

QUEBEC WHITE PAPER ON THE PERSONAL
 TAX AND TRANSFER SYSTEMS

Ministère des Communications, Direction de la
 Commercialisation, C.P. 1005 Quebec (Quebec)
 G1K 7B5. 1984. \$5.

GOALS FOR OUR FUTURE SOCIETY

A Consultative Document Inviting Responses from the
 Church and from Society.

Board for Social Responsibility, Church House, Dean's
 Yard, London SW1. 1985. Price 95 pence.

THE STATE: AUTHORITY AND AUTONOMY
 Bill Jordan, Blackwell. 1985. £19.50 hardback.

EXPLOITATION AND BASIC INCOMES

BILL JORDAN

One of the most potentially damaging accusations against the concept of the Basic Income is that it provides a "Charter for Exploitation". This theme has already been taken up by trade union critics of the idea, particularly in relation to the claim that a universal Basic Income would allow part-time work to become more widespread. These critics argue that part-time work already tends to be low-paid, and that its further extension would not only erode wage rates but also undermine campaigns for more well-paid, full-time jobs.

The most useful way to approach this problem is in relation to the largest group of part-time workers – married women. Between 1961 and 1978, the number of women in work rose from 7.5 million to 9.5 million; yet at the same time the number of *full-time* women workers was actually *falling*. Why? An important part of the answer appears to lie in the impact of taxation and benefits on the family during this period. As income taxes bit into the wages of more and more men on average and below-average earnings, so it became increasingly more advantageous for wives to work part-time (taking advantage of the amount they could earn tax-free).

Evidence for this view was provided by a recent survey of one area by Professor Ray Pahl.⁽¹⁾ He discovered that while 51% of women with husbands in employment had paid jobs, only 2% of women with unemployed husbands were themselves in employment. While there may have been other factors contributing to this enormous discrepancy, the main one seemed to be the loss of benefits incurred by "unemployed" families in which the wife earned more than the very restricted amounts (£18 for Unemployment Benefit and £4 for Supplementary Benefit), compared with the £42 tax-free earnings of the wife in the "employed" families.

It is certainly true that many married women work part-time for very low hourly rates of pay. This is partly the historical legacy of discrimination, built upon the institution of women's unpaid domestic labour and traditional child care responsibilities. But it also reflects a tax structure which makes it advantageous for women to work at these low rates of pay, and therefore effectively subsidises employers of part-time female labour.

The Basic Income scheme would pay every woman, married or single, a tax-free income in her own right, equal to that of a man. But the pay of married women would be treated for tax purposes on the same basis as for everybody else. All earnings would be taxed, therefore married women's part-time earnings would be worth less under a Basic Income scheme, than at present, and married women would have *less* incentive to work part-time for low wages. If exploitation is to be

measured in terms of hourly wage rates, a Basic Income scheme would therefore be a major step *away* from the present exploitation of part-time women workers.

Compared with the present situation, those who would gain in terms of part-time work from a Basic Income scheme would be social security claimants, who now can earn little or nothing without losing benefits. For the rest, as Hermione Parker's tables show (Bulletin No 3), the largest gains are made by families near to average earnings, and *not* by those at present amongst the lowest paid, for whom the non-means-tested basic income simply replaces the present means-tested benefits. In other words, people would have strong incentives to push their earnings up towards present average wages; but a couple would have no disincentives to achieving this by *both* working part-time, since both would face the same tax rates on their earnings.

The next issue is therefore whether *new* part-time jobs (for men as well as women) would represent an increase in exploitation. Here we should distinguish between a number of sectors of employment. First, there are relatively highly-paid jobs, including certain services – banking, insurance, financial and business services, for instance – and a proportion of "high-tech" industrial jobs. There is already evidence of change in the direction of "flexible firms" in the industrial sphere, with a smaller "core" of long-term employees, and a larger "periphery" of sub-contract workers, employed by smaller firms or co-operatives. It may well be that this trend will spread to services also, using information technology to link "tele-workers" to an administrative centre. The implications of this change are still unclear; but if it involves increased exploitation, it is unlikely to be in the first sense we have considered. These workers would still be amongst the best-paid on an hourly basis, with the best opportunities to gain from ever-growing productivity, through the application of technological innovations.

It is certainly true that these changes do represent a form of exploitation which is intrinsic to capitalist economic development – the exploitation of new combinations of skilled labour and machinery, in new working processes, giving higher productivity and profits. It is also true that a Basic Income scheme would probably facilitate the process of change from present working conditions to these new, more flexible ones, just as the post-war welfare state probably oiled the wheels of the last industrial expansion, in the immediate post-war era. Where wage and salary earners stand to gain is that a Basic Income scheme would give them the security to take advantage of new and more flexible working hours and arrangements, just as it would allow employers to profit by new forms of labour process. This in turn could lead to faster growth of incomes and of other welfare services.

For the rest of the workforce, exploitation is not a single phenomenon; it is a complex product of work

processes, pay structures, traditional domestic roles and the tax and benefit systems. For the Labour movement, the fear is that all these factors could combine together in an expanded "no-tech" service sector, with unpleasant work, at low rates of pay, on a short-term, casual and part-time basis. This fear is reinforced by the evidence of an already growing sector of this kind, subsidised by means-tested benefits and government employment or training schemes.

But far from increasing this pattern of exploitation, an *adequate* basic income should reduce it. The whole principle of the scheme is to meet everyone's primary income needs – in relation to their individual living expenses – *before* they reach the labour market; but (unlike the present benefits system) to leave them free to increase this basic income through paid employment. Under existing systems, people with extra income requirements (for instance, because they have a number of children, or a disabled or handicapped member of the family) are exploited in the sense that they are often *forced* into low-paid employment, through lack of adequate income support. Means-tested benefits given on top of low wages only serve to trap them in poverty.

It is true that a Basic Income scheme would not, on its own, do anything about low pay. But it would mean that many people at present facing only two choices – full-time low-paid employment or full-time unemployment – would have a whole range of alternative options. Their decent guaranteed basic income would allow them to take as many hours of paid work as they wanted, so they would no longer be forced to offer themselves for full-time low-paid jobs. This should have the effect of raising wage rates and improving conditions at the lower end of the employment market, since employers could no longer exploit those compelled to work full-time. If this were not sufficient, there is no reason why minimum hourly rates of pay should not be fixed and enforced.

The higher the basic income, the more it would offset the disadvantages at present suffered by people with low earning power and heavy domestic responsibilities. As well as giving wage-earners more choice about how much to work, it would also give families (and other living units) more choice about how to share home responsibilities. All the research evidence shows that at present women undertake the vast bulk of such work, even when they also have paid jobs. This is mainly a legacy of a division of labour in which men were "breadwinners" with full-time jobs, and women were employed part-time or not at all, and treated as dependants. By giving women adequate basic incomes in their own right, and providing additional incomes in relation to children and adult dependants (related to their actual costs of living) a Basic Income scheme would make possible a radical change within the "domestic economy".

The scheme would not suddenly change attitudes or habits, but it could provide the basis for a major shift. Both men and women would enter the labour market on the same tax footing; and they would face each other in the home with the same individual basic incomes. Women would therefore be in a far stronger position to negotiate about paid and unpaid work

roles. Apart from differential wage rates, there would be no reason why men should not reduce their hours of employment to take more responsibility for family and domestic chores, while women could (if they chose to) make a greater contribution towards earnings.

The aim of the Basic Income scheme would therefore be to minimise the exploitation that has traditionally consisted in women being forced into unpaid domestic roles through economic dependence on men. But we should also recognise that the burden of care falls quite disproportionately on those women who have the unexpected *extra* tasks associated with having – for example – a handicapped child or a frail elderly parent living in their households. The additions to the Basic Income payable to such citizens would only partly compensate for the disadvantages of those caring for them, even if the work was shared more equally between men and women. For respite and supplementary assistance they would still require the kind of help provided by local authorities in the form of day care and domiciliary services.

This raises another difficult issue – the relationship between income maintenance provision and services in kind. The Labour movement has always been in favour of increasing services in kind, on the grounds that this simultaneously provided jobs, wages and free services for those most in need. But recently this strategy has been questioned. State services themselves have often had a high proportion of low-paid and part-time workers. The quality of these services has been criticised by some (including consumers) as being paternalistic, bureaucratic, and occasionally coercive – for example, in lone parents' reactions to services concerned with child care and protection. Many Labour-controlled local authorities have developed policies (such as grant aid to self-help groups, more generous fostering allowances and subsidised childminding) as more personal and flexible alternatives to an institutionalised "service delivery" model. All these approaches blur the distinctions between unpaid care and part-time employment in state services. They illustrate the complex and shifting relationship between income maintenance, services in kind and "community care", and show that any strategy for social welfare needs to take full account of all these elements.

In summary, the roots of exploitation are not to be found simply in low pay or bad working conditions; we must also consider what alternatives are open to the most exploited groups, both inside and outside the labour market. A Basic Income scheme which gave a generous, unconditional guaranteed income to all citizens would not end all forms of exploitation; but it would be a new bulwark against the major forms of exploitation which exist within the present system. It would not reduce the importance of present bulwarks – including trade union activities and legal minimum hourly rates of pay. It could combine basic security of income with substantial redistribution, and provide a platform for a new advance in the battle against exploitation of all kinds.

Reference

R. E. Pahl, *Work and Society Newsletter*, No 4, April 1984.

AT HOME AND ABROAD

QUEBEC WHITE PAPER ON THE PERSONAL TAX AND TRANSFER SYSTEMS

A White Paper published last autumn by the Government of Quebec proposes complete integration of its tax and transfer systems. This reform is designed not only to correct the shortcomings of the tax and transfer systems, but also to simplify them and to ensure that moving from one to the other can take place more smoothly. The aim is to improve work incentives, economic efficiency and thus "the general welfare of the community as a whole".

STRUCTURE OF THE REFORM

Tax: Tax reductions in order to ensure that income required to cover essential needs is no longer taxable. Full recognition of the essential needs of children within the tax system.

Transfers: A new income guarantee programme would replace existing transfer programmes. Benefit amounts would be determined on the basis of the amounts actually spent by low income workers to cover essential needs. The new guarantee would be available to low income workers as well as those without work. And higher rates of benefit would be payable to participants in community work, industrial training or a return to school. Benefit withdrawal rates would be 50%, with no income tax payable.

Integration measures:

- Harmonisation of the essential needs recognised under the income guarantee programme with those recognised under the tax system.
- Adoption of common or compatible definitions of income, assets and needs for tax and transfer systems.
- Personal tax exemptions and transfers to be indexed at the same rate.
- Introduction of a lump sum income tax reduction, in order to increase the zero tax threshold and avoid a situation where taxpayers both pay tax and receive transfers.

BASIC INCOME PILOT PROJECT IN FRANCE

In France the international movement ATD Fourth World, which is concerned with the poorest families and has long campaigned for a guaranteed minimum income for those with children, set aside Frs 3 million out of a total government grant last year of Frs 5 million to finance a pilot project in the region of Ile-et-Vilaine and the city of Rennes in Brittany. A sample of 80 urban and 50 rural families has been enrolled and the experiment will last for at least one year. The aim is to give these families the security necessary to reorganise their lives.

The need for an income guarantee is even more urgent in France than in the UK, since France has no equivalent of supplementary benefit. For families without entitlement to social insurance benefits the only certain source of income is the "allocation familiale" or child benefit, and this is not payable for the first child. A guaranteed minimum family income introduced in 1980 does not reach the poorest families, because it excludes anyone with less than the national minimum wage, for instance self-employed or casual workers. A few authorities have introduced local guaranteed minimum incomes, but the impact is limited.

The ATD project guarantees each family between 93% and 118% of the national minimum wage for agricultural workers (SMIG), which in March 1985, at the start of the experiment, was about Frs 4,000 a month. For those families who manage to earn a regular income there is a 50% benefit withdrawal rate, but this is not imposed until the family has been earning regularly for two months. At the level of the SMIG French families pay no income tax, but social insurance contribution is about 15%. The effective marginal tax rate is therefore about 65%.

TOYNBEE HALL MEETING 1st June 1985

"After Beveridge"

On June 1 the Council of Toynbee Hall held a one-day conference, chaired by Professor Dahrendorf, on the future of social security. Speakers included Hermione Parker, on behalf of BIRG. (A report of the conference proceedings will be published shortly.)

BIRG SEMINARS

The following seminars are planned by BIRG and will take place from 1.30 to 4.30pm in the Adams Room at NCVO, 43 Bedford Square. WC1. All sponsors are automatically invited:-

1st November 1985: The tax/benefit unit

12th December 1985: Cash and care?

7th February 1986: International moves towards Basic Incomes

VIEWPOINT

A TWO-TIER BASIC INCOME AND A NATIONAL MINIMUM WAGE

ROBIN SMAIL

Some advocates of the full Basic Income have repeatedly pointed to the advantages of the system for job creation. Peter Ashby, for example, has argued that basic incomes would make it "much easier for employers to maintain existing jobs or create new ones because *they would no longer be required to pay the subsistence component of income*".⁽¹⁾ And Keith Roberts claims that "the merit of a Basic Income scheme is that it separates the provision of a basic subsistence income – which everyone must have – from their earnings capacity, which . . . may vary over wide limits".⁽²⁾

The argument is inevitably linked with the fashionable "priced-out" theory of labour market economics and, at first sight, appears to be straightforward and attractive. The provision of a basic income would accommodate greater downward flexibility in wage setting procedures, with the result that earnings would more closely reflect actual skills and usefulness. The unemployed would be able to compete for jobs at wage levels which employers were able to afford, making higher overall employment possible. Set within this theoretical context, however, the argument for basic incomes is seriously flawed and represents a dangerous development in the debate. In this article I shall argue that income security for working people should be provided through a national minimum wage and that a national minimum wage should therefore constitute an essential element of a Basic Income scheme. Without it any attempts to replace the existing social security system with a Basic Income system should be resisted.

THE CASE FOR A NATIONAL MINIMUM WAGE

Despite the superficial attractions of a full Basic Income scheme void of any statutory national minimum wage, which many may regard as an efficient and humane alternative to the present Government's policies on pay and employment, there are five main reasons why such a strategy is ill-conceived:-

1. EMPLOYMENT PROSPECTS DEPEND ON AGGREGATE DEMAND

The assumption that workers are like any other commodity, which can be bought and sold according to its price, is simplistic. It takes no account of the fact that workers are themselves customers. Cutting wages reduces their ability to buy goods and services, and leads to the destruction, not the preservation, of jobs.

Extra staff, however cheap, will not be considered necessary if demand for the firm's product or services is slack.

Likewise the argument that lower wages would make Britain more competitive is unconvincing. If we try to compete on this basis, we shall inevitably lose out to countries like Taiwan, Korea and Hong Kong. Moreover a large proportion of low paid workers are employed in strictly domestic areas, for instance in the public sector, shops, personal services and catering. Their real wages have already been eroded, yet there is no conclusive evidence of a beneficial effect on employment.

2. LOW WAGES MEAN LOW EFFICIENCY

Besides depressing spending power (and thus employment), low pay results in reduced productivity and efficiency, and in increased subsidisation by the State of inefficient employers. Firms who are able to "muddle along" using cheap labour have little incentive to invest in training or better techniques of production. Productivity is reduced and staff turnover increased with the result that overall efficiency suffers. "Cowboy" firms may flourish temporarily but the end result is probably a net loss of jobs.

Winston Churchill appreciated these dangers when he created the Trades Boards system (which preceded the Wages Councils) in 1909:

"We believe that decent conditions make for industrial efficiency and increase rather than decrease competitive power." (Liberalism and the Social Problem, 1909.)

The Department of Applied Economics at Cambridge University made the same point in 1982:

"Unregulated low wage employment destabilises product markets, increases uncertainty and risk, slows down the rate of scrapping (of outdated equipment) and consequently reduces both the level of new investment and the profitability of new investment in high wage firms." (Labour Market Structure, Industrial Organisation and Low Pay. Craig et al, 1982.)

This view has recently been supported by the Institute of Personnel Management and the British Institute of Management, who both favour the preservation of the wages council system.

3. ENLARGING THE SECONDARY SECTOR OF THE LABOUR MARKET WOULD CREATE "TWO NATIONS"

While it can be argued that a full Basic Income system would bridge the gap between employment and unemployment, it is also arguable that it would widen the gap between those in part-time, casual work and those in full-time employment. If the removal of wage protection under a full Basic Income scheme resulted in the creation of an extended low-paid sector, the new jobs would almost certainly be of low status, with high turnover, little security, few skills and little job satisfaction. Moreover, with wage protection removed and competition for jobs simultaneously intensified, there is every likelihood that workers in the secondary sector of the labour market would find themselves at even more of a disadvantage than they are at present. And that disadvantage might well become even greater if the Basic Income required substantially higher rates of income tax than at present. Faced with tax increases and the threat of wage undercutting, workers in good jobs would seek to protect their positions even more fiercely than they do at present. (Few would wish to rely wholly on the basic income.) And if a large number of people had little hope of ever entering the primary labour market, then relative poverty might be reinforced.

4. A FAIR DAY'S PAY FOR A FAIR DAY'S WORK

The principle of a "fair day's pay for a fair day's work" has been recognised by the Council of Europe in the European Social Charter, and interpreted as meaning earnings of not less than 68% of the average. Recent surveys show public support for a relative improvement in the earnings of the low paid. For instance London Weekend Television/MORI and SCPR surveys showed that three quarters of the adult population thought the gaps between the highly paid and low paid and between rich and poor were too large.⁽³⁾ And two-thirds of those questioned in the *Breadline Britain* survey supported the introduction of a national minimum wage.

5. FALLACY OF THE "INVISIBLE HAND"

The idea that a Basic Income scheme would make wage regulation unnecessary supports the currently popular idea that the free market is best able to value labour. If all barriers to price movements were removed, so the argument goes, then information, goods, services and factors of production like labour and capital could move freely, and markets could be cleared instantaneously. An "efficient" allocation of resources could then be achieved. In the labour market involuntary unemployment would be eradicated and all workers would be paid according to their worth or (marginal revenue) product.

This line of reasoning is misleading and dangerous. For in reality very few, if any, markets ever achieve such a state. The dissemination of information is never instant, uncertainty flourishes and there are powerful tendencies towards monopolistic competition and recurrent surges of unemployment. Labour mobility is restricted by regional inequalities, housing shortages, family commitments, financial constraints and discrimination on grounds of sex, race and religion.

THE CASE FOR A TWO-TIER BASIC INCOME

The Low Pay Unit is committed to the introduction of a national minimum wage. Is a Basic Income scheme consistent with a national minimum wage?

The problem is familiar. To pay for a full Basic Income scheme providing a decent income for all, marginal tax rates would need to be high. But if the cost of the scheme were kept down, then the basic income would be too low to meet a reasonable subsistence level. Negative income tax tries to overcome this dilemma by making the payment of the dividend subject to a means test – which means high benefit-withdrawal rates (see Hermione Parker's article in Bulletin No 3). This has the effect of reducing tax rates on the average-income family by imposing high rates on the poor. It therefore institutionalises, rather than alleviates, the poverty trap.

An alternative approach would be a two-tier Basic Income scheme. This is designed, as far as possible, to provide non-contribution-based, non-means-tested benefits for all.

A two-tier scheme could work like this. The basic tier would include the provision of *two unconditional benefits* only. First, everyone of 16 and over would receive a payment equivalent to the single person's present personal tax allowance, currently worth £13.00 per week. Paying this sum as a cash benefit rather than a tax allowance would eradicate the present anomalous situation where the allowance is worth more to higher rate tax payers. Second, every child under the age of 16 would receive a cash benefit of about £16 a week (see Table), made payable to the parents.

Over and above these benefits would be a second tier of *conditional basic income supplements*, not subject to any contribution test, but only to the circumstances of the individual. Thus an unemployed person aged between 16 and, say, 65, and registered for work, would receive the equivalent of the current unemployment benefit rate. A similar payment would be made to those sick and disabled people unable to work and to any person registered as a pensioner. While simplicity with the system is a major objective, further supplements would be available to meet unavoidable extra living costs incurred as a result of severe disability or very old age (over 85). All these basic incomes would be tax-free and payable to individuals, regardless of marital status.

Although more work needs to be done on the costings of such a scheme, it looks as if the starting rate of tax would not need to be more than 40%. National insurance contributions would be abolished.

Two areas of difficulty are housing and part-time work. It is essential to devise an equitable and efficient housing benefit scheme, and also to find a fair means of distinguishing between those "in work" and those "out of work but available to work", taking account of the large proportion of the workforce now employed part-time. For example, part-timers might have an element of their unemployment supplement deducted according to the number of half-days worked (rather than as at present, the amount of money earned).

Much more work will have to be done on such a two-tier Basic Income scheme before the Low Pay Unit could formally support it. However, we hope that BIRG and the Low Pay Unit will be able to collaborate on the necessary research. The possibility of a two-tier Basic Income scheme is well worth discussion as one means of reconciling the need to tackle low pay directly, and the provision of an automatic and efficient system of income support for the non-working poor. The Low Pay Unit still considers that the wages system is the main method of income support for anyone in work.

References

1. *Social Security After Beveridge – What next?* NCVO, Bedford Square Press, 1984
2. *Economic Aspects of Basic Income*, BIRG Working Paper (unpublished)
3. *Breadline Britain*, 1983; *British Social Attitudes, the 1984 Report*, Social and Community Planning Research

TWO-TIER BASIC INCOME SCHEME: PROPOSED BASIC INCOMES

CATEGORY	POPULATION NUMBERS	1982-83 BASIC INCOMES		1985-86 BASIC INCOMES	
		Weekly rates	Annual cost	Weekly rates	Annual cost
	m	£	£1000m.	£	£1000m.
1. UNCONDITIONAL BASIC INCOMES:					
Each adult	44.0	9.00	20.6	13.00	29.7
Each child	12.3	13.00	8.3	16.00	10.2
2. CONDITIONAL BASIC INCOME SUPPLEMENTS					
Each unemployed person ¹	6.00	25.50	8.0	30.50	9.5
Each part-time worker ²	5.00	11.50	3.0	13.60	3.5
Each person aged 65 or over	8.4	25.50	11.1	30.50	13.3
Each invalid/chronically sick person	1.0	25.50	1.3	30.50	1.6
Disability costs allowances	est 3.5 est	5.00 average	1.0	8.00 average	1.5
TOTAL COST OF BASIC INCOMES			53.3		69.3

1. Estimate of current unemployment plus discouraged workers currently not employed and not registered unemployed

2. 19½ hours average

LETTERS

Please make your letters as short and to the point as possible. We reserve the right to edit longer letters.

Costing Basic Incomes

June 1985

Dear Editor

Ever since the Ecology Party included what we called a National Income Scheme in its first Manifesto in 1974, as its main proponent within the party I have often been challenged to provide costings. My answer down the years has been twofold: firstly the *principle* is sound, independently of any costings. Only if the total wealth in circulation is below, or too close to the amount needed to satisfy basic subsistence is the scheme unworkable, and if that were the case, what else would work? I hope you will allow me to expand on this aspect in a later issue.

My second answer has been that detailed costings should await someone properly qualified. I did nevertheless make an attempt, and the latest updated figures were for 1982-83, and they are therefore directly comparable to Hermione Parker's (BIRG Bulletin No 3). Overall, they correspond reassuringly well.

There is however one major difference. Hermione Parker gives the Tax Base as £163bn. I obtained the following figures from the Central Statistical Office Annual Abstract of Statistics 1984:

Gross Incomes 1982	£bn.
From self-employment incl employers' NIC	20.1
From employment	155.1
Rent, dividends etc.	26.2
Other sources (total)	36.5
Corporate income	70.6
	<hr/> 308.5

In other words, this is the total sum from which the Inland Revenue actually deduct tax. On what grounds does Hermione Parker leave out any of these components of the total wealth in circulation?

Yours faithfully

Clive Lord

Ecology Party, Batley, West Yorkshire

Hermione Parker writes:

There are two points here. First Mr Lord seems to be talking about a wealth tax, whereas, for the costings in Bulletin No 3, I was talking about an income tax.

Secondly, it is not possible to obtain a correct estimate of the income tax base (either actual or assuming a Basic Income scheme) from the Annual Abstract of

Statistics Table which he quotes. There are various technical reasons for this, for instance that total incomes from employment in the national statistics include employers' national insurance contributions, and they also include national insurance retirement pensions (NIRP) which are currently taxable but would be free of income tax in the Basic Income options I was costing. My income tax base figures were supplied by the Inland Revenue and were based largely on their study of the Survey of Personal Incomes (SPI) for 1979-80. Revised figures based on the 1982-83 SPI are as follows:

	£bn.
Total income covered by SPI	168.0
+ Pay below deduction card limit	1.0
+ NIRP not covered by SPI	6.0
+ NSB exempt income	1.0
+ Employees' contributions to occupational pension schemes	3.0
+ Building Society interest not covered by SPI	3.0 (max)
+ Income (including lump sums) for life assurance and superannuation schemes not subject to tax (including some taxable income not covered by SPI) possibly	8.0
	<hr/> 190.0
- NIRP taxable social security benefits	16.0
	<hr/>
= Maximum "BIG" tax base assuming taxation of ALL income other than the BIs	174.0

In real life it is most unlikely that the Inland Revenue would be able to get their fingers on *all* income other than the people's basic incomes. For my latest costings of 1982-83 BIs I therefore assume a maximum income tax base of £169bn, having subtracted £1bn for pay below the deduction card limit, and £4bn for miscellaneous pension tax reliefs. I recommend that Mr Lord reads Professor A. B. Atkinson's study *The Cost of Social Dividend and Tax Credit Schemes*, referred to at the end of my article.

LETTERS

19

An alternative to wage-capping

17 July 1985

Dear Editor

One of the most fundamental issues of the "after Beveridge" debate is the "after Keynes" fact of chronic unemployment and under-employment.

The Welfare State, and the social security system in particular, were geared to a near full employment economy, in which most of those in the labour force were in full-time jobs for most of the time. One does not have to be a technological pessimist to recognise that the labour process is becoming much more flexible, with casual work, part-time jobs and sub-contracting self-employment all growing to the detriment of regular full-time jobs.

One implication of these trends is that more and more people are having to rely on some non-work income assistance at some time or other, often for prolonged periods. The extent of transfer payments to satisfy minimal needs is mounting. As a result insecurity grows. And this phenomenon is now found in many industrial economies.

The British Government's response is to make social security more selective and discriminatory. However, there are two alternative approaches to getting round the dilemma of growing unemployment and work casualisation.

The first is what could be called *wage-capping* – so-called profit or revenue-sharing – suggesting that there should be a relatively low basic wage topped up with a share of profits. This would reduce workers' income security and shift part of business risk from investors to workers. It would be difficult to introduce such a system with the more flexible labour systems and the services that are growing, and it would almost certainly imply a range of controls over unions and other groups representing unions.

The second, the Basic Income approach, essentially reverses the principle of "wage-capping" by providing a basic income unconnected with work activity that could be topped up by earned income. Unlike wage-capping, which would accentuate the vulnerability and low incomes of non-full-time "core" workers, the Basic Income approach makes a virtue of the changing nature of the labour and production process in a "deindustrialising" or "post-industrial" society. It makes it easier for people to choose what work schedule they would like to have. And incidentally it need not result in lower wages to the extent that people could more easily reject a job paying a very low wage.

A Basic Income scheme should allow for greater flexibility in retirement because an older person would get an income regardless of whether he retired or not. It would also make it easier for work-income

opportunities to be taken by those needing the income; those wanting to pursue a low income-low work option would be able to do so more readily.

Of course, this Bulletin is focusing on the costs and feasibility of a Basic Income approach. Yet it is important to put the debate in the specific context of growing labour flexibility, in which institutional, tax and efficiency reasons are encouraging the growth of part-time employment and casualisation of employment, much of it involuntary.

There is every indication that in the UK this process has a long way to go. We should reflect on the fact that in several West European countries, particularly the Netherlands, Denmark and Belgium, only a little over a third of the working-age population is in full-time employment. This implies that a very large proportion of the population may be in need of supplementary assistance to provide a "decent" level of earnings.

It certainly cannot be assumed that most part-time workers are "supplementary income earners", who are supported by a full-time income earner. There is also a related trend, which is that there are signs of a polarisation between households with two or more earners and households with none or only one in a part-time job. Reducing the wages of the low-paid, most of whom are in part-time jobs, would scarcely be the appropriate answer.

I hope that BIRG will address itself to the links between changing work patterns and the social security system. They lend force to the case for a Basic Income approach.

Yours faithfully

Guy Standing

International Labour Office, Geneva



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