

# BIRG BIRG BIRG

## BULLETIN

BASIC INCOME RESEARCH GROUP BULLETIN NO 9 £3.00 SPRING/SUMMER 1989

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EXISTENCE INCOME AND  
ACTIVITY INCOME

CAN IT HAPPEN? SUSAN RAVEN  
TALKS TO THREE MPs

DENMARK'S BASIC PENSION

BASIC INCOME IN IRELAND

# BIRG

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

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

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

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## *APPEAL FOR SPONSORS*

In earlier editions of the Bulletin we appealed for support from all organisations and individuals who share our belief that there must be far-reaching changes in social security and personal taxation. Hundreds of individuals and voluntary organisations have become BIRG subscribers. If you are not on our mailing list, why not consider joining us by completing and returning the enclosed application form? A subscription entitles you to the BIRG Bulletins, Newsletters and seminars. Subscribers are not committing themselves to support a Basic Income. Rather, they are committing themselves to encouraging informed debate about the desirability and feasibility of reform along these lines.

THE BASIC INCOME RESEARCH GROUP was set up in 1984, under the auspices of the National Council for Voluntary Organisations, to research all aspects of reform along the lines of a basic income. In 1986 it affiliated to the BASIC INCOME EUROPEAN NETWORK (BIEN), which it helped to found.

BIRG is not a pressure group, nor is it aligned to any political party.

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## Editorial

As I write this (in mid-May) battle is joined between those who say poverty in Britain no longer exists and those who say it engulfs nearly one third of the population. The nil figure was used by Secretary of State for Social Security Mr John Moore in a speech on 11th May, in which he said that capitalism had "wiped out the stark want of Dickensian Britain". The one-third figure is used by the poverty lobby, and is derived from *Low Income Families — 1985*, published by the Department of Health and Social Security (DHSS) in May 1988, and based on detailed analysis of the 1985 Family Expenditure Survey.

The DHSS showed an estimated 32% of GB families (excluding Northern Ireland) with net incomes below 140% of their supplementary benefit entitlement levels. Supplementary benefit (SB) was for many years Britain's benefit of last resort. It was replaced in April 1988 by *income support*, but the new system is similar. The poverty lobby describe all families with net incomes below 140% of SB (about 9 million of them) as living in poverty or its margins. Mr Moore says they are referring to inequality not poverty, and is equally damning about Eurocrats who define "poverty" as "less than half average income per head" in each Member State. Unfortunately he gives no alternative measure, and he carefully avoids mentioning the 6% of families (nearly 2 million) who in 1985 had net incomes **below** SB entitlement levels — either because they were not claiming or had no entitlement.

The debate raises two main issues. First the urgent need to do exactly what John Moore derides, and publish systematically produced estimates of the incomes necessary for families of different composition (with and without children, in and out of work) to buy the physical and social necessities of contemporary living. Second the even more urgent need to ensure that every man, woman and child who is legally resident within the United Kingdom has guaranteed, unconditional access to the amounts laid down by Parliament, without having to fight their way through prejudice, complexity and red tape.

BIRG has always maintained that poverty prevention requires a detailed knowledge of needs and costs throughout the life cycle. For a Cabinet Minister to talk about 'targeting' benefits without bothering to find out how much money different people require is ludicrous. If Britain, like the USA, Canada, France, Germany, Holland, Sweden and many other countries had family budget standards to which the poverty lobby could refer, much of the current debate would be defused.

Of course preparation of family budget standards is controversial. Mr Moore was right to emphasise the difficulties. But it is much easier than it used to be — thanks to micro computers. And it is surely better to open up the debate about needs and costs, by publishing tentative figures (complete with supporting evidence), than to sit back and wish the problem away.

The claim that 30% of the British population live in poverty does not fit in with what the British public see around them. The fact that 6% of British families had



net incomes in 1985 **below** their supplementary benefit levels is far more significant. This year the DSS budget is £51,000 million. To spend so much and yet leave 2 million families with incomes below the amounts approved by Parliament is intolerable.

It is figures like that 6% which make the case for BI so powerful.

After 1992 a Basic Income Guarantee, applied throughout the European Community, should be the long-term goal. But it will take time, because some of the Member States do not as yet have any sort of non-contributory minimum income, either conditional or unconditional. This subject will be discussed at a *European Conference on Basic Incomes*, to be held under the aegis of the Commission of the European Communities, at Windsor next November.

Before readers jump for joy at the thought of a European conference on Basic Income, be warned that the European Commission does not seem to mean the same as BIRG when they talk about Basic Incomes. On the contrary, they seem to be referring to any sort of minimum income guarantee, whereas Basic Income (BI) as defined by BIRG (using capital letters) has a very specific connotation. It means an unconditional income paid automatically to every man, woman and child, regardless of their other income, and regardless of their employment or marital status. Defined in this way a Basic Income replaces existing benefits and income tax reliefs. The tax and benefit systems are integrated, and the BI is withdrawn through a new, hypothecated income tax, **not** through the benefit system. The new income tax replaces existing income tax and national insurance contributions. The latter become irrelevant.

BIRG draws a sharp distinction between Basic Income and minimum incomes. A substantial part of the case for BI rests on the limitations of existing minimum income guarantees: Britain's income support, Germany's 'Sozialhilfe', Belgium's 'minimex', France's new 'RMI' and the social assistance benefits payable in Denmark and the Netherlands. None of these benefits is automatic or unconditional, they are all either means-tested or income-tested. None takes the individual as the unit of assessment, they all take the nuclear family, extended family or household. Take-up is partial, red tape is abundant, some people are excluded by law, some do not get the money intended for them, and for those who do get it there are nearly always poverty trap effects.

Now it may be that means-tested income guarantees are a necessary stage through which a country must pass before it can introduce BI. It is nevertheless vital not to use language that clouds the issues.

With this edition of the Bulletin, BIRG looks forward to 1992. We include articles from France, Denmark and Ireland, and also a short piece by James Jaboureck of ATD Fourth World about France's new minimum income (see AT HOME & ABROAD). BIRG is affiliated to the Basic Income European Network (BIEN), which we helped to form, and we hope that readers from outside Britain will feed us regularly with material suitable for future Bulletins. Not just European readers, but readers worldwide. The problems of low income, social security and tax know no boundaries. We can all learn from each others' problems, and from the efforts made by each country to overcome them.

## Existence income and activity income

Henri Guitton

Time and again the same, shameful figures are reproduced: between 2 and 3 million French people who are unable to find work. All of us recognise that unemployed people who have used up their right to contributory benefits cannot be left without resources. I am not alone in suggesting that a new deal would be possible. It is certainly not Roosevelt's New Deal, although the terminology is the same. It is the idea of distributing the nation's resources through procedures that are not exclusively linked to paid work.

Do we pay sufficient attention to the fact that taxation, which originated as a means of providing revenues for increasingly high-spending governments, has had the indirect effect of redistributing the nation's resources without any precise regard to income from work? Exactly the same can be said of transfer incomes, or social benefits, including those that are financed by central government as well as those financed by the social funds<sup>1</sup>.

Notice also that as a country gets richer, the increased wealth is accompanied by a new poverty. Long-term unemployment, and the loss of benefit that follows from it, is one manifestation of that poverty.

### Beyond waged labour

For decades we have acted in the belief that full employment is a practical possibility. This belief, which for many people is like a dogma, emanates from the 1930s and the influence (mainly) of anglo-saxon writers. In France we were imprudent enough to include the maintenance of full employment in the preambles of our recent constitutions. Yet the events of recent years force us to admit that full employment is no longer attainable. Clearly that is not the opinion of everybody. Some people still regard anything short of full employment as a main cause of continuing crisis. But this is a view I do not share. Far from being a cause for sorrow, I venture to suggest that the present situation should be a cause for joy, provided only, of course, that we quickly prepare for entry into the civilisation of the twenty-first century.

Unemployment today is not the same as the unemployment from which the French word for it (*chômage*) originates. *Chômage* was essentially a short-term phenomenon, brought about by hot weather (*cauma* means heat). Long-term unemployment is a different phenomenon, and the old word is inappropriate. Nor is this an accident of history. Are we not proud of our annual increases in productivity? Should we not congratulate ourselves that so much degrading work is no longer necessary?

Certainly I am not suggesting that we should no longer foster economic growth, or stimulate the creation of enterprises, or subsidise productive investments, but such measures, no matter how useful, do nothing to get us out of the alleged crisis. They just might help to re-establish the old order, but it is precisely the old order which has brought us to where we are. They will not help us enter a new society.

It was M Bernard Chenot, permanent secretary of the Academy of Moral and Political Sciences, who during the meeting of 30th November 1987, recalled the words of Chateaubriand — words that are both surprising and prophetic:

“Under the feudal system, germanic servitude replaced roman servitude, serfdom took the place of slavery: it was the first step towards liberation of the human race and, strange to say, we owe it to feudalism. From serfdom we moved on to waged labour, but waged labour will also change, because it is not full liberty”. (Preface to *Études historiques*, 1831.)

When one realises that the whole of our system of social security rests on waged labour, that remark is impressive. The essence of the present challenge is to get beyond waged labour in order to enhance freedom. Chateaubriand's prophesy is close to the thinking of Yoland Bresson in the book which he carefully called *L'après-salariat (Beyond Waged Labour)*<sup>2</sup>.

## Existence, or dignity income

At this stage I would like to explain the new deal mentioned earlier. The first move is to distinguish between *existence income* and *activity income*, which are complementary to each other.

The different sorts of guaranteed minimum income currently under discussion have all the appearances of a share-out between those who lead a privileged existence and those who live in poverty. The objective is clearly praiseworthy, and for the immediate future it is probably indispensable. Charity, that is to say love for one's neighbour, will always be the divine breath without which society cannot survive. It is nevertheless not on assistance (or poverty relief) that tomorrow's civilisation will be founded. Again and again we must repeat: poverty relief, like waged labour, must be gradually phased out.

Current discussions about a wealth tax<sup>3</sup> are not in the direction that I am proposing. The very fact that the new income guarantee will be financed by a tax on the rich underlines its character of assistance. Its authors have a problem. They want the new measures to encourage benefit claimants to find a way back into the productive process. That is why the new income guarantee is called the *revenu minimum d'insertion*. The word insertion implies re-inclusion within society, by means of paid work. Unfortunately a single word and an inadequate benefit are not of themselves sufficient to lift claimants out of their poverty. As soon as the claimant finds employment, she or he loses the right to what is essentially a replacement benefit. How long will it take before one can be sure that a claimant is permanently reintegrated in mainstream society? Some outside

authority will have to decide. This is not at all the reform we have in mind.

In order to escape the connotation of assistance, every citizen should receive, as of right, from birth to death, the same standard amount, which we have called the *dignity income*. Each living person has the same potential. As an analogy one can take the nerve cells of the brain: from the moment when they come into existence and throughout each person's life cycle, they require the same minimum dose of glucose, delivered through the bloodstream whether or not they are activated. The amount that is required has nothing to do with age, sex or work status. Of course it is difficult to accept that rich people need this benefit as much as poor people, but the brain of a rich person is no different to the brain of a poor person. Furthermore, if it were necessary to fix a boundary between the two categories, it would be difficult to identify and it would involve subjective judgements. If the rich were excluded, the benefit would take on the appearance of assistance.

It is not necessary to be in paid employment in order to qualify for the benefit that I propose. The link between income and work disappears. Contrary to what is so often said: he who does not work must nevertheless eat.

In France an existence income is about to take effect, although it has another name. For the time being it is called the *Revenu Minimum d'Insertion (RMI)*, but the starting points for Government Ministers were very similar to our own. In the plan we support, those starting points are not arbitrarily fixed. When the time is ripe to move on from general principles to specific schemes we would like to develop the following idea. When he studied the curve of French income distribution, Professor Yoland Bresson<sup>4</sup> showed that average *per capita* income is 1250 FF a month (or 15,000 FF a year). It follows that an existence income at that level would not alter existing income distribution nor upset any equilibrium. It can also be shown that this amount corresponds to the monetary value of human time, objectively costed.

An existence income, determined in this way, should be gradually introduced, and should replace the existing, highly complex, system of social protection. A distinction should also be made between people with special needs and those for whom the basis of entitlement is citizenship, or *solidarité naturelle*. But it will take time to change customs and attitudes.

## Activity income

The activity income is complementary to the existence income, and is no less essential. The existence income is intended as the safety net of last resort, in order to avoid poverty, but it is very much a minimum. On its own it is not sufficient. It must not be an incentive to idleness. It needs a supplement.

The existence (or life) benefit, as it has also been called, takes the individual as the unit of assessment and is unconditional. It must also be a base on which individuals can build without earnings restrictions. This last point is important. It is both desirable and necessary that each person who is able to do so should participate in the productive process. Here we go back to the idea of insertion.

We are looking for escape from the exclusion which haunts the present system. To talk about exclusion as a result of the system of waged labour is more realistic than to talk about *chômage*.

It is useful to pursue the analogy of the brain. When the nerve cells are activated, they receive glucose supplements. This explains the second part of the income. The first part was unconditional. The second brings back the idea of work to be done.

But it is still necessary to define what we mean by work. If work only means waged labour, as is often the case, then I go back to Chateaubriand's idea and I prefer the expression *activity*. I repeat that there is no question of abolishing waged labour, which for many still seems to be the only route to *insertion*, or participation. But of the 3 million people in France, who are at present excluded from paid work, I do not foresee the possibility of reinstating more than 1 million in enterprises based on waged labour. Perhaps 1 million might find self employment, and a further 1 million might find work in the parallel, hidden or "black" economy.

If full employment on the basis of waged labour is no longer conceivable, full employment for skilled manual workers is far from possible. We lack plumbers, carpenters, electricians, especially in rural areas. The contrast is striking: too many people looking for waged labour, but too few artisans. Yet the new information technologies, like micro-computers, are becoming more and more favourable to small scale production and independent work. These new forms of skilled work are not a return to the past but an advance towards the future.

In order to make the black economy white, we need changes to social security and tax legislation which will distinguish between fraud that is inadmissible and a way out of the present confusion, towards the market economy so praised by others. Is not clandestine work perceived as less degrading than long-term benefit dependency?

The difficulties are immense but hope is no less intense. If only we could unite our efforts, even though we may not agree about everything! The idea of bringing together an existence income with an activity income should at least be taken seriously.

*Professor Henri Guitton is a retired French economist of great influence in catholic circles, and a member of the prestigious French Academy. He has been involved for some time, along with fellow economist Professor Yoland Bresson, in a working party on basic income. This article was translated by Hermione Parker from a piece published in the October-November 1988 issue of PARTAGE (54 rue des Entrepôts, F-93400 St Ouen, France).*

#### References

1. In France most social security benefits (and the contributions that finance them) are the responsibility of funds set up for that purpose.
2. Yoland Bresson: *L'après-salariat*, Economica, 1984.
3. See HOME AND ABROAD, France's *Revenu Minimum d'Insertion*.
4. Yoland Bresson: *Le Participat: Réconcilier l'économie et le social*, Chotard et associés éditeurs, 68, rue J.-J.-Rousseau, 75001, Paris, 1986.

## Can it happen?

Susan Raven talks to Frank Field MP, Archy Kirkwood MP and the Rt Hon David Howell MP

*Sir Brandon Rhys Williams' posthumous pamphlet **Stepping Stones to Independence: National Insurance after 1990** was published last February (see Book Review and Books Received). Susan Raven asked three Members of Parliament for their reactions to it. Frank Field is Labour Member of Parliament for Birkenhead. He is Chairman of the House of Commons Select Committee on Social Services, and a former director of the Child Poverty Action Group. Archy Kirkwood is Social and Liberal Democrat (SLD) Member of Parliament for Roxburgh and Berwickshire. He is SLD spokesman on social security. David Howell is Conservative Member of Parliament for Guildford and a former member of Mrs Thatcher's Cabinet. He is Chairman of the House of Commons Select Committee on Foreign Affairs, and Chairman of the One Nation Group of Conservative MPs.*

### FRANK FIELD MP (Labour)

"Brandon had a certainty about what should be that was very attractive — truly inspiring. But I think the idea of BI is more interesting than practicable. It's certainly out of step with current feelings. We are moving from the era when the State has been over-possessive about what it can do: now the rhetoric is quite the opposite. People should take responsibility for themselves.

"He makes a marvellous case for a Christian society, but the job of both the theologian and the politician is to work out how to galvanise self interest to promote the general good. BI is altruism without self-interest. We have to remember that large numbers of people do well out of the present system; and some of them would lose under Brandon's.

"Also, there's Murphy's law to consider: if a reform can go wrong, it does go wrong. The recent reform of housing benefit was presented by the Government as a small administrative reform, but it's gone wholly wrong in Birkenhead. Brandon's doing a Big Bang on tax and benefit, and I just wonder what human nature would do to it. It doesn't work as politics. It's important to have ideas like his: they're utopian, and without utopian vision mankind becomes warped. But politics is about penultimate and not ultimate aims.

"I'm not necessarily keen on the integration of tax and benefit, which is what Brandon wanted. I am keen that we're aware of the effects of tax changes on the benefit system. The Government's tax hand is at last aware what its welfare hand is doing. But they're so ideologically committed to targeting that they don't realise how it reinforces the unemployment and poverty traps. I totally

agree with Brandon that it's utterly wrong that 30% of the nation's children live in families dependent on means-tested benefits, and I also agree that those targeted benefits are a chief cause of the unemployment and poverty traps.

"The crucial thing is to get the basic structures right. A general BI for everyone is unsellable in the current climate — my solution is to double child benefit. It would be a springboard to freedom for single mothers. They could chuck all their other benefit books away, and build on it. And although everyone complains that we're paying the Duchess of Westminster as well as mothers who really need it, at least we're paying her for doing something to which the benefit is functionally related. Doubling child benefit would be a real dent on poverty.

"Then I'd like to see targeted benefit — not means-related — to everybody over 85, or even over 80. They're all very frail, often handicapped and almost always without an occupational pension. They're a very large group who are not covered and should be.

"However, there is no chance that this Government will increase child benefit. So are we just to rant and rave at them — which will not raise child benefit by a single penny? Or are we going to go on to enemy territory and encourage them to reintroduce child tax allowances — which could be converted by a future Labour government into child benefit for all? I'm just doing a paper for the Family Policy Studies Centre on this very subject. We should build in this way on child benefit, and on attendance allowance. They're already in place, let's build on them — and make them more comprehensive.

"I'd like to see the Government reintroduce child tax allowances for the next two years. Then I'd like to phase out other tax allowances — for private pensions and mortgages — over the next five years, go for a standard rate of income tax of 12-15 pence in the £, and use fiscal drag to pay for the doubling of child benefit. The rest of the welfare state would still be in place. If tax rates were so low and child benefit doubled, I wouldn't make any adjustments to other benefits, like housing benefit; except that we should certainly move away from the present disincentives to marry, such as offsetting maintenance payments against tax. No one else can get their housekeeping paid for like that!

"The crucial thing is to have child benefit large enough, and I'd tax it once it was at a decent level.

"The aim is simplicity. This scheme would be simpler than Brandon's, and it could be operated very, very quickly. I'm not ideologically opposed to his — there's just a real difficulty in introducing it. I think the single most important thing about *Stepping Stones to Independence* is that it keeps Brandon's spirit alive".

## ARCHY KIRKWOOD (SLD)

"The SLD is on target to produce a new green paper on social security reform for our autumn conference — Lady Seear is chairing a group of experts.

"In the old Alliance parties we were very much in favour of the integrated tax/benefit model — but the SDP

preferred a more selective approach to benefits. They took a view of things more like that of the Institute for Fiscal Studies, so at the last election we had to try and reconcile our two approaches, and it led to a bit of a compromise.

"The SLD is now looking at it more longterm — and I think our scheme will be more like Brandon's. We're moving in his direction quite fast. I'm very pleased about it. His analysis is most valuable. He quite clearly shows that you can't have targeted benefits without horrendous problems.

"David Howell puts it very well in his foreword, when he says that what Brandon's pamphlet illuminates is not just a poverty trap: 'It is a work trap, a marriage trap, a thrift trap and, above all, a dependency trap'. He lists all the people who can't get out — the people who save up, the people who get married.

"Brandon saw that more clearly than anyone. I was a fan of his. I sat with him on a couple of committees. At first I thought he was eccentric, but he persuaded me because of the strength of his argument, that a kind of dependency culture flows directly from a strict regime of targeting. We have pinched ideas from him — and I think he was prepared to accept some of our contributions. There were interesting little *pas de deux* in these committees! It's very infrequent that you listen to an argument and change your mind. He actually could persuade people they were wrong! Very few MPs can do that.

"Tory MPs who only study the subject superficially just don't understand, and the public argument is conducted on a very superficial level. Politicians are unsure of the ground, so I think it's a long haul — and Brandon recognised that too. We have to convince Conservatives that targeting benefits inevitably creates the poverty trap. We have to persuade the socialists that tax rates for a full BI would be unacceptable — it wouldn't be sellable. And we have to persuade the civil service that the system can't be patched up any longer. *Stepping Stones to Independence* is a valuable contribution to the public debate.

"We've also got to make it a sexier political issue. My constituents are well aware of what's happening to them — but we've got to popularise our scheme, and reduce it to levels which ordinary people can understand. There's a difficulty about giving extra income to childless women, but perhaps not if it is only what their husbands receive gratuitously. So we would attach a higher priority to increasing assistance to families via child benefit, which is universal, and should be uprated.

"The value of Brandon's work was that he understood the technical details. I think his 35 per cent tax rate is achievable. It is only 1 per cent more than the current income tax rate of 25 pence in the £, plus 9 pence in the £ national insurance contribution (NIC) — though clearly some people (those who do not at the moment pay NIC on any of their income) would pay more tax, and we would have to ensure that most pensioners pay no more.

"High take-up is very important as well. I think that is one of the key essentials of his scheme. There was a disgracefully low take-up before 1988 of the old supplementary benefit and family income supplement. The

Fowler reforms have simplified them, but there is still a tremendous amount of ignorance about people's entitlements. Some people don't think it's worth claiming £1 a week, and lot of eligible retired people don't like applying for what they think of as charity. Lots of people are not claiming small amounts.

"It's scandalous that the Government's target for take-up of the new family credit was only 60 per cent, and take-up hasn't even reached that figure yet. The take-up of income support is higher, but it's still nothing like 100 per cent, more like the high 70s or low 80s. If it were 100 per cent the Treasury and the Prime Minister would have a fit.

"The Fowler reviews were internal reviews — just tinkering. There was no proper consultation, and there are lots of losers. I don't think the existing system will last, but it's important to get some urgency into the debate, because of the proportion of elderly people in the population in the next century. Governments are going to have to address that problem soon. SERPS (State Earnings Related Pension) was trimmed for that reason. We are looking at paying adequate pensions to all regardless of contribution records, with no meanstesting — just income tax on extra income.

"There are about twelve people in the House who understand social security. When you get a meaningful debate those twelve will be present — plus MPs coming in briefly to report on their casework. That's a legitimate use of Parliament, of course, but they don't stay long. The Press don't understand a word of it. And I wonder how many of the Cabinet do?

"I had a lot of time and respect for Tony Newton, who was the Minister for six years, and piloted the Fowler reviews through committee very professionally. But I don't think John Moore has a clue about the technical details.

"The current Social Security Bill requires people to seek work actively, but it can't possibly be a good idea to have them telephoning factories every week about jobs that don't exist.

"Giving benefit unconditionally to those with small irregular earnings would have, I believe, a galvanising effect on people who at the moment have no incentive of any kind to better their circumstances. I think that as they moved into full-time work the tax revenue from these people discovering an incentive to work would be greatly increased — and would be enough to finance a 100 per cent take-up. The support of a few workshy individuals would be a small price to pay. You can't legislate on the basis that everyone is a shyster and a layabout — and in any case their children are not to blame. You have to underpin society to some extent.

"Brandon's scheme is an agenda for action. I don't understand why the Tories don't go for it — Brandon approached the problem from a logical Conservative point of view. Mrs Thatcher will never do it in a million years — she glories in rubbing people's noses in adversity. But if Peter Walker or Michael Heseltine were Prime Minister, I think the chances of something like BI getting on the statute book would be high. He'd get a lot of support, and in the hands of an old-fashioned Tory

radical it would be a winner. The Labour party wouldn't have an answer to it.

"The blue-rinse brigade would go for it too, if it were sold to them properly. It's a compassionate attempt to bridge the gap between rich and poor, and make our society less unfair ... It's all there!"

## THE RT. HON. DAVID HOWELL MP (Conservative)

"We do have a dependency culture in our society, which is the surest way to create a deeply divided nation. The Tory Party is trying to get rid of this dependency, but it is growing in spite of recent reforms, and I think it will continue to do so as long as you do not have a large enough gap between what people can earn from work and what they receive in benefits. You must somehow widen the incentives to go into work.

"The savings trap and the unemployment trap — though the latter is somewhat less now — are obviously products of the needs- and means-test approach. And you will always have a shallow trap in any system with a needs element, if you are giving benefits to people with special problems.

"We can't do away with all assessment, but we can do away with a good deal, and I myself prefer the sort of non means-tested solution Brandon believed in. Full BI would certainly be too expensive, but I am a supporter of partial BI. As time goes by people will recognise what a pioneer Brandon was. His work will be studied a long time hence, which is more than can be said for the utterances of most politicians.

"I have a layman's interest in tax and social security. I do think that present policies are reinforcing and not solving the dependency culture — a situation which in the long term is untenable. We've got to float out of it. The key is to mix social security not just with taxation but also with personal ownership. I have a long-standing connection, of some twenty years, with the idea of wider ownership. We persuaded the Conservative party to embrace this idea, because wider ownership can help sort out the poverty and welfare mess. But we still have a long way to go.

"I'm an admirer of the views of pioneers in America like Louis Kelso (American lawyer, author of *The Capitalist Manifesto*), who was saying four decades ago that a new social capitalism would spread the benefits of society, and create a pattern in which the vast majority of people — even the disadvantaged — would have some capital resource, as well as income. It was then considered eccentric — privatising public utilities and creating wider share ownership — but today they are almost mainstream policies. This is the way out of *needism*, though of course it doesn't cope completely with the problems of, for example, the single parent — for whom, I believe, partial BI is the partial answer.

"Kelso invented the phrase capital-owning democracy, which is a step beyond a property-owning democracy. Employee share schemes were his idea, and they are central to this Government's thinking. They're committed to wider capital ownership — but they're not yet



ready to give up targeting, even though they deplore the poverty traps. They have got some ideas, like raising the capital disregard for the elderly poor, in the hope that eventually everyone will be floated off onto occupational pensions. That may not help the present generation of really poor old people, but their numbers are shrinking, in the nature of things.

“However, I don’t share the analysis that unemployment is a permanent feature of our society. It’s still not widely recognised that half the population of working age is not in the labour market at all, which is what people like [Professor] Charles Handy are beginning to explain. The idea of BI does fit in. It will take time, but I believe the Conservative Party will get round to these ideas within the next five years.

“We are into a world of fiendish complexity, where a number of experts know all about everything, and others shy away from this sort of radical step because it is too radical. My message is that as time goes by they will begin to think about it.

“We may one day have an infinitely more flexible labour market, with people getting income from all sorts of sources, including BI and their personal capital, whether they are in work or not, and whatever their status. The present pattern is in the long term untenable. People are beginning to understand that there’s a great change in the nature and character of work.

“There are a lot of ideas just over the horizon. Even the Adam Smith Institute is beginning to look at the possibility of people receiving lump sums instead of an income from benefits. The fear that people will spend such sums on high living and gambling is yesterday’s thinking.”

## Denmark’s basic pension

Adam Trier

*Each of the Scandinavian countries has a national, old age pension based on citizenship or legal residence, not contribution record. In Finland, but not in the other Scandinavian countries, the pension for a married couple is twice the amount for a single person, and there are no earnings rules. None of these pensions is strictly speaking a “Basic Income” for older people, because none is integrated with the tax systems and some apply earnings restrictions. Their relevance to Basic Income lies in their cost, their financing systems, their impact on the living standards of older people, their impact on voluntary savings for old age, and the philosophy behind them. Here we take a brief look at Denmark’s basic pension.*

Denmark’s state pensions are paid at the same standard rates (slightly lower for people who are married than for single people) to all citizens who have lived in Denmark for at least 40 years between the ages of 15 and 67, the latter being the official age of retirement. Between the ages of 67 and 70 an earnings restriction is imposed. The pension is gradually withdrawn if earnings exceed approximately 33 per cent of the average production worker wage. Spouses can each earn up to this limit.

The pensions are non-contributory. The basis of entitlement and the amount payable are unrelated to contributions paid, or to periods of gainful employment. Instead they are calculated according to periods of residence in Denmark. If the claimant has not lived in Denmark during the statutory 40 years necessary to obtain a full pension, s/he receives a fraction of the full pension, the amount payable being proportionate to the number of years resident in Denmark. Thus an older person who had lived in Denmark for 20 years would get half the full pension amount.

Danish state pensions are also non-contributory in the sense that they are entirely State-financed, through direct and indirect taxes. There are no social security contributions, either by employers or employees. Nor is there a separate pension budget. Expenditure on pensions is an integral part of the national budget, in just the same way as, for example, defence.

### Historical origins

The origin of Denmark’s pension system is neither social insurance nor a pension fund. It evolved from Denmark’s former Poor Law, a part of which was transformed in 1891 into a general right for all needy, older people to receive old age pensions from the municipality. The amount paid had to be sufficient to cover all basic needs. Once allocated, it could not be removed or reduced without a change of circumstances. Moreover its receipt,

unlike Poor Law assistance, carried no penalties. Recipients of Poor Law assistance were disqualified from voting, but not the recipients of the 1891 pension.

The present system of state pensions has evolved step by step from these early, old age benefits. That is why proof of need has always played, and continues to play, an important part. It is only since 1970 that the main component of the pension, the basic amount, has been paid to everyone fulfilling the residence qualification, without a test of need. Income tests are applied for the basic-pension supplement, which is worth about 20% of the basic amount, as well as for housing, heating and other benefits.

## **Old age, invalidity and early retirement are all covered**

The pension system includes early pensions payable to people who cannot earn a living, either because they have a physical or mental disability, or because they have other long-term problems, like age-aggravated unemployment, or a lack of vocational qualifications.

About 13 per cent of the population receive an old age pension, and about 5 per cent receive an early pension. A further 2 per cent of the population (minimum age 60) get early pensions paid by the unemployment benefit offices. The total cost of all these pensions comes to about 7 per cent of Gross National Product. Approximately 1 of these 7 per cent is accounted for by the early pensions for unemployed people.

## **Pension amounts**

For a single person, the old age pension (basic amount plus income-tested supplement) comes to nearly half the after-tax earnings of the average, production worker<sup>1</sup>. For a couple the net old age pension comes to a little under 40% of the net earnings of **two** average production workers<sup>1</sup>. Other benefits may also be payable, for instance the income-tested benefits already referred to (housing benefit etc).

Pensions count as taxable income, but pensioners get special tax allowances. The effect is that a single person with no income other than the old age pension pays no income tax, and a couple with only the old age pension pays less tax than people with the same income from other sources.

In these respects only a legally married couple is treated as a couple. People often argue that pensioners are motivated to divorce, in order to obtain higher pensions, especially through the higher tax allowance for single pensioners. It is nevertheless doubtful whether many people would divorce for that reason. There is a strong political wish to treat married couples and single people equally. Some steps in that direction have already been taken. But it will cost a lot of money to give the same amount to everybody as a single person receives today.

When the basic pension amount is income-tested (that is for pensioners below age 67, and between 67 and 70 as regards earned income) the assessment unit is the

individual. But for the pension supplement and for other income-tested benefits (like housing benefit) the assessment unit is the married couple, ie the incomes of both spouses are added together.

Each spouse draws his or her pension independently. It is paid monthly in advance, normally into the pensioner's bank account.

## **Administered by local government**

Pensions in Denmark are administered by the local communes, who are obliged to have a department for social affairs and health, under the direction of a special social affairs committee. The committee members are elected by the municipal council from among its members. These committees administer other branches of social security (sickness benefits and child benefits) as well as pensions. They are also responsible for social services (including social assistance, rehabilitation and a range of services for children, the elderly and people with disabilities).

So it is that cash benefits and the personal social services are managed by the same department, the idea being that this encourages coherence and efficacy. This combination of decentralisation to local government, plus concentration of responsibility for a whole range of duties and services within a single department, was possible in Denmark because the communes already administered the non-contribution pensions.

## **Consensus support**

There is general agreement that the universal old age pension should stay. It is considered a great advantage to have a pension which covers all the different categories of older people, including those with disabilities, women who have had not been in paid work, self-employed people and others whose careers have been irregular or interrupted. Provision of a pension that is sufficient to meet all basic needs is reckoned to be a fundamental part of the fight against poverty. The political will to maintain the level of the pension has never been questioned. Pensions have been uprated in line with earnings. Moreover the purchasing power of the pension has been maintained even during periods when salaries were increasing more slowly than prices. Absence of the contribution principle has resulted in one rather special characteristic of the system. Thus the early pension, which in effect is an invalidity pension, is more generous than the old age pension, because it is thought that young people need more income than old people.

## **Additional pensions**

By comparison with the national pension, other pension systems are undeveloped and their coverage is very uneven.

There is an obligatory system of employment-related pensions, for all employees working 10 hours a week or more, but the pension amount is very small. Contributions are flat rate and equal to about 1 per cent of the average wage. Employment-related pensions were

introduced 24 years ago, but the additional pensions currently in payment are still worth only about 12 per cent of the national pension. Like the contributions, the additional pension is flat rate.

A little over a third of wage and salary earners are also entitled to substantial occupational pensions as part of their employment contracts. Most of these pension rights are of quite recent origin. Certain categories of workers are more likely to be covered than others, for instance civil servants and other public sector employees, senior managers and people employed in certain industries, for example banks and insurance companies. If nothing is done to modify these developments, big inequalities of income will develop between different groups of retired people, and it will be difficult to avoid serious political tensions.

Discussions have been going on for many years about the possibility of creating a second tier of earnings-related pensions for everybody in paid work, but so far nothing has been decided. It is a question that always ranks high on the agendas of the political parties and the social partners.

It has to be said that the existence of Denmark's highly-developed non-contributory, basic pension has slowed down the development of additional pensions very considerably. As a result the pension entitlements of a large section of the population are inadequate by comparison with their previous earnings.

Furthermore, if there could be an extension of occupational and other additional pension schemes, this could have a positive effect on savings, if the schemes were funded.

From the evidence available there is no doubt that voluntary saving is greatly discouraged by the continuing imposition of income tests for part of the state basic pension. Because of this it has already been decided to relax some of the rules, but it will be necessary to do even more if voluntary saving is to be encouraged, whether in the form of an additional pension or other means.

## **Tax-funded versus contribution-funded pensions?**

Taxation redistributes wealth, hence it is generally acceptable to finance the flat-rate basic pension through tax. But it is much less acceptable to use the tax system as a means of financing earnings-related pensions. In Denmark the tax system has been pushed to its limits. Taxation now accounts for more than 50 per cent of GNP. Direct taxation alone amounts to about 30 per cent of GNP and indirect taxation covers the rest, apart from a few other per cent of GNP paid in the form of social security contributions (mainly for unemployment benefits, but also for the small additional pensions referred to above). So it is quite normal for an average worker to pay about 45 per cent of his wage in direct tax.

People might well have preferred to pay less tax and instead pay contributions towards individual pension rights. Among other things, the need for harmonisation of the tax systems of the member states of the European Community, after introduction of the single market in

1993, puts pressure on Denmark to reduce taxation and, as a consequence, to increase contributions for pensions and other benefits.

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### **Note**

Editor's note.

In April 1988 the standard rate of UK retirement pension came to 23.8 percent of net weekly earnings for a single person at average earnings, and the rate for a married couple came to 19.0 percent of the net weekly earnings of two single people each at average earnings (DHSS Abstract of Statistics for Index of Retail Prices, Average Earnings, Social Security Benefits and Contributions, August 1988, Table 6.3b). The figures are not strictly comparable with the Danish figures, which are based on the earnings of an average worker in metal industry. The UK earnings figures relate to the average earnings of all full-time adults.

In *The Tax/Benefit Position of Production workers, 1984-87*, (published by the OECD in Paris) average production-worker earnings in 1987 were Kr 180,400 in DK and £9,823 in the UK. The OECD estimates for Denmark are slightly higher than the metal-worker earnings used by Adam Trier, so his pension percentages fall from "nearly half" to 48% for a single person, and from "nearly 40% to 37% for a married couple. OECD estimates of take-home pay/net income for a single "average production worker" were Kr 97,408 in DK and £6,942 in the UK. On this basis, the 1987 UK pension equivalent to the Danish pension becomes £3,332 for a single person (48% of £6,942), and £5,137 for a married couple (37% (2 x £6,942)). Instead of which the actual UK pension amounts were £2,054 for a single person and £3,289 for a married couple — which is much smaller.

# Basic income in Ireland: The debate so far

Rosheen Callender

*This article is an update of a paper presented by the author at the First International Conference on Basic Income, held at Louvain-La-Neuve, Belgium in 1986.*

The 'basic income debate' in Ireland has unfolded slowly over the last decade or so. There have been long lulls; short spurts of discussion; and the gradual evolution of four distinct strands among those who are interested in developing and applying the concept to Irish conditions.

To my knowledge, the first written material on the subject was contained in a 1977 Report produced for the National Economic and Social Council, on *Integrated Approaches to Personal Taxes and Transfers*.<sup>1</sup> This described our existing tax and transfer systems and discussed three possible variations, including what it called 'an individual tax and grant system'. It was a brave attempt to stimulate debate on the relationship between taxation and social welfare; and it presented a good framework for such debate.

But the debate was slow to develop. Nor was it an integrated debate. A major campaign on tax reform began in the late '70s. A more limited debate about social welfare reform developed during the '80s. Each resulted in Commissions, investigations, extensive analysis and worthy — but separate — reports. And the reports, by and large, were ignored by governments.

Meanwhile, discussion about the need for an integrated, or 'holistic', approach to taxation and social welfare began to develop in political and trade union circles. The purpose of this paper is to summarise these somewhat scattered developments and sketch in their background and context.

## Economic and Social Context

In Ireland, 30% of the population is under 15 and another 11% is over 65. Of those who are over 15, 27% work in the home, 9% are students, and many more are unable to work for reasons such as illness or old age. In fact, the labour force comprises only 37% of the population — and when the unemployed are excluded, one is reduced to a figure of about 30% for the number actually at work.

So, out of a population of roughly 3.5 million, only about 1.1 million are at work. Of these, 21% are either employers or self-employed. The remaining 888,800 — that is a mere 25% of the population — constitute the bulk of the country's income tax payers. Nearly 90% of

income tax revenue derives from this sector; a figure which has remained more or less constant for over a decade.

Since the bulk of the country's tax revenue derives from income taxes and indirect taxation, with revenue from other sources such as property, wealth or capital being negligible, there has been considerable dissatisfaction. The 'tax revolt' of the late 1970s began as a mass demand by employees for a more equitable distribution of the huge tax burden shouldered by them. However, the street protests were largely defused by the establishment of a Commission on Taxation, which took several years to deliberate, and then issued its report over another few years (1982-85). When these reports eventually appeared, they were comprehensive in scope and quite radical in content, but — probably for this very reason — received scant attention as far as immediate policy decisions were concerned.

Meanwhile, a very different campaign developed in relation to social welfare — also culminating in the establishment (in 1983) of a Commission to review the entire system. This was a prolonged propaganda campaign by employers, conservative politicians, and other right-wingers, against social welfare recipients, who were allegedly 'sponging' and 'abusing' the system. Essentially, it was a campaign for reductions in benefit levels — ostensibly to increase people's 'incentive to work', but in reality to reduce public expenditure on social welfare. It was a right-wing response to the tax reform campaign: an attempt to avoid the introduction of a fairer tax system — which would spread the burden more evenly and bring in more revenue — by cutting social services instead.

However, the Report of the Commission on Social Welfare<sup>2</sup>, in 1986, was a major disappointment to right-wing economists and politicians whose main preoccupation was with cuts in public expenditure. It called for improved income support for those on social welfare, particularly at the lowest levels of payment. It called for better delivery of services, better treatment of recipients, the removal of many anomalies and irritants and the relaxation of unnecessary rules and restrictions. It did not, however, support the basic income idea — of which more below.

At present, Ireland's high dependency ratio and huge unemployment mean that over one third of the population (1.3 million people) are wholly or partly dependent upon social welfare. Spending in this area accounts for one-seventh of our GNP, and nearly one quarter of all government spending. While these figures are in line with the EEC average, the fact that our per capita GNP is well below the EEC average means that, in real terms, the burden of expenditure is greater. And the essential point is that this burden is being carried by such a small proportion of the population. In effect, 25% of the population is supporting, or helping to support, 60% of the people (themselves plus the 35% on social welfare).

This makes the arithmetic of BI alarming, whatever way you approach it. Over the years, various costings have been done for various levels of BI. They all involve an enormous net cost — in Irish terms — which tends to put a damper on the discussion. The fact that many years of campaigning for a fair taxation system have proved fruitless to date (in terms of spreading the burden fairly



and taxing all forms of wealth and income), and that the social welfare system still fails to provide a living income for those in need (despite the Commission's recommendations and years of lobbying by anti-poverty groups and agencies), have tended to push back the BI debate — even though one might expect or hope for the opposite response.

## The Four Strands

The discussion that has occurred has done so in four distinct circles, with some small overlap between them:

- Fine Gael
- Green Alliance
- Trade Unions and the Workers' Party
- Academics

### 1. Fine Gael

There is a section of the Fine Gael Party (traditionally the most right-wing political party in Ireland, on economic issues), which favours the concept of BI. A former Chairman of the Party's youth section, Chris O'Malley, has been its main proponent, and in 1986 Young Fine Gael (YFG) produced costings for an intermediary form of BI for Ireland. This involved reductions in existing welfare payments — by the amount of the BI — but not full replacement of the social welfare or tax systems.

Under the 1986 YFG proposal, every adult over 18 would receive £30 per week; and everyone under 18, £10 per week. This would cost some £4,000 million per annum and would be paid for by savings of £1,800 million in welfare payments, training allowances, etc — and by increases in income tax. The stated advantages were elimination of the poverty trap and the incentive to join the 'black economy'; provision of adequate and independent support for school-leavers, students, trainees, and non-earning spouses; removal of the stigma attached to being a welfare recipient; simplification; and encouragement of low-paid employment. The issue of tax reform was not addressed.

In 1988, the Fine Gael Party as a whole adopted the idea of BI but said it would not give costings "until an appropriate time", thus avoiding the crucial issues of (i) the BI amount, and (ii) how to pay for it.

More recently, Chris O'Malley has produced revised costings, for a BI of £40 a week for over-18s and £8 for under-18s, with a tax rate of 40% on all income, and a clawback of half the BI from those earning over £100 a week (see article by O'Malley in this Bulletin).

### 2. Green Alliance

The second group advocating BI is the Green Alliance. Some of its members have been speaking and writing on the subject of 'social dividend' for many years. However, I have not seen any firm proposals or costings from them which would indicate the precise form of BI envisaged. Nor do they appear to have addressed the issues of tax reform or wealth creation in any detail.

To date, the only public indication of their thinking in these matters was contained in letters to *The Irish Times* (25th May and 6th June, 1988) from their Joint Co-ordinator, Paul O'Brien, in which he said that the methods of paying for BI which were under consideration by the Green Alliance at that time included repudiation of the national debt; abolition of VAT and taxes on labour and their replacement by land, energy and other taxes; and reducing public expenditure in some areas. He also referred to a book by Raymond Crotty, in which a social dividend of £80 a week at 1984 prices is costed.<sup>3</sup> More definite policies have not yet emerged.

### 3. Trade Unions and the Workers' Party

The third circle in which BI has been discussed is the trade union and socialist one. The country's largest union — the Irish Transport and General Workers' Union (ITGWU) — advocated integration of the tax and social welfare systems in its submissions to the Commission on Taxation (1982) and the Commission on Social Welfare (1984). It proposed the introduction of a guaranteed minimum income which would be related to average male earnings (or any earnings indicator which would not reflect, and hence perpetuate, discrimination against women). It also re-iterated its policy (which incidentally is the policy of the entire trade union movement, as expressed by the Irish Congress of Trade Unions (ICTU)), in favour of a statutory, national minimum wage.

A similar policy has been adopted by the Workers' Party, which is one of Ireland's smallest political parties with parliamentary representation, but has spelt its policy out in the most detail. In its submission to the Commission on Social Welfare (1984), summarised in a 1986 publication<sup>4</sup>, the Workers' Party advocates full replacement and integration of the existing tax and social welfare systems, but argues that successful introduction of a BI system is inextricably linked to the resolution of other major economic and political problems — namely, the need for comprehensive tax reform and the revitalisation of production. It points out that the gap between the cost of an acceptable BI and the savings derived from scrapping existing social welfare payments and tax reliefs, can only be bridged through massive economic development and expansion of the country's productive base.

The Workers' Party is also at pains to distinguish its view of BI from that of the other proponents, arguing that properly implemented, BI would be "... an extremely progressive, egalitarian measure involving a major redistribution of income across society. The extent of the redistribution involved does not appear to be recognised by other organisations, which have recently been floating and playing with this idea." In particular, the Party considers that Fine Gael "... have no notion of how much extra tax their wealthy backers would have to pay, in order to finance such a system ... And when the Green Party talks about the need for everyone to be handed a minimum income so that they can opt out of the workforce and indulge their creative instincts, they clearly have no idea of the extent to which productive, taxable, marketable, economic activity in Ireland must increase in order to finance ... their social ideals."<sup>5</sup>

In 1986, the Workers' Party did costings for a BI of £33 a week for over-18s (which was just above the lowest

rate of social welfare at that time), and an average of one-third of this amount for under-18s. The gross cost was estimated at £4,442 million, to be met from tax expenditure and social welfare savings of £3,280 million on the one hand, and increased employment and tax revenue on the other. More recently, early in 1989, the Workers' Party estimated that a BI of £50 a week for those aged 18-64, with payments of 130%, 55% and 40% to over-65s, 15-18 year-olds and under-15s respectively, would give rise to a revenue shortfall of about £1,400 million — after tax expenditure and social welfare savings.

#### 4. Academics

The fourth circle in which discussion of BI has occurred is the academic one, starting with Dowling's 1977 Report<sup>1</sup>, and followed, after a very long interval, by a paper by Patrick Honohan (an economics lecturer at University College Dublin (UCD))<sup>6</sup>. Honohan deals in detail with the advantages and disadvantages of BI, as well as with its redistributive effects. He points to the farmer taxation problem as possibly "a decisive obstacle" (because farmers in Ireland still pay little or no income tax), and says that "so long as farmers are not adequately integrated into the income tax system, the introduction of BI for them could result in a wholly unwarranted redistribution in their favour."

Honohan also raises the question of what to do about the social insurance system, and whether the retention of 'insured' benefits is compatible with BI. Finally, he does some costings (at 1985-86 prices) for a BI scheme paying £35 a week to people aged 26-65, £50 a week to those over 65, £25 a week to those aged 18-24, and £13 a week to under-18s. This, he said, could be paid for with a single-rate income tax rate of 40.5% and a benefit withdrawal rate of 27%. If there were no benefit withdrawal, the tax rate would have to be 64%. Such a scheme would be of major benefit to large families, but single people and middle-income people with few dependents would lose out.

In conclusion Honohan discussed the views of the two Commissions (on Taxation and Social Welfare). He argued that BI was not a competitor to the Commission on Taxation's proposals, but was essentially complementary to them — since at several points the Commission had advocated the substitution of direct payments for tax reliefs and BI "could be seen as a catch-all way of covering this problem". In relation to the Commission on Social Welfare, Honohan set out their objections to BI and pointed out some of the shortcomings in their arguments; but accepted, in the end, that "the really serious discrepancy between the Commission's views and the BI approach is in the level of the BI. It is not possible to finance a basic income scheme which gives a payment of £55 p.w. to every adult. In the final analysis, therefore, the entire BI idea stands or falls on one's views as to the adequacy of the payments that are possible."

### The Two Commissions

As explained, both Commissions were essentially negative towards BI. The Commission on Taxation dismissed the idea after very cursory consideration. The Commission on Social Welfare discussed it more

thoroughly — devoting a 14-page chapter to it — but rejected it nevertheless. Their main arguments were that the tax burden would be too great; that the BI would inevitably be lower than some existing welfare payments; that the claimed administrative simplifications and savings were overstated; and that income maintenance schemes really need to be attuned to needs.

My own view of the Commission's analysis in this area is that it treated what was essentially a proposal for fundamental, long-term change as if it were one for overnight change — viewing it within limited short-term parameters and dismissing it on grounds which were too narrow. This would have been understandable and even acceptable if the report had been presented as a set of immediate proposals for early implementation and if longer-range issues (like BI) had been deliberately pushed 'down the agenda' for practical and tactical reasons. But the rather definitive dismissal of BI gave the embryonic debate a knock on the head from which it is still finding it hard to recover!

### The Future

Work is currently in progress to develop a sufficiently powerful model of taxes and transfers in Ireland to enable us to make detailed assessments of the impact of different policy options, including introduction of full and partial BI systems. This has been commissioned by the Foundation for Fiscal Studies (a similar organisation to the UK's Institute for Fiscal Studies) and should be completed later in 1989.

But, in my view, the precise details of BI in Ireland are still less important than the broad principles, and the question of whether sufficient political will exists to carry out the kind of redistribution of income and work that BI can make possible. The sad fact is that in Ireland today, 'everyone' (from government Ministers, to Bishops, to the unemployed) agrees that no-one should be expected to live on an income of less than £60 a week; and a recent opinion poll showed that 88% of people said the government should spend more on reducing poverty, with 66% saying that was necessary even if it meant higher taxes. (That was one week before government lopped £88 million off the social welfare budget, in early 1989!)

Yet the lowest social welfare payments in Ireland are still only about £42 a week — 79% of the 'agreed', socially acceptable minimum. The fact remains that we have too few people at work, and too few of them are paying a fair contribution to the Exchequer. Job creation, and the redistribution of an unfair tax burden, have been for many years our most pressing politico-economic problems. Yet they seem as far as ever from resolution.

For a BI system to work successfully in Ireland, active state intervention is required to tackle both these problems. Private enterprise cannot and will not do so. Ours is a particularly sickly specimen. But in Ireland, as elsewhere, it's increasingly unpopular to point this out. And we have delusions about the single European market coming to our rescue ...

A limited form of BI could remove some of the anomalies in social welfare and help private enterprise to function

a little more effectively. It could make a few changes at the margins of the economy — for example by encouraging more small-scale enterprise and by legitimising some of capitalism's offshoots, which are sprouting, and usually flourishing, in the black economy. (Many of these offshoots are healthier than their parents and reincorporation into the official economy would probably be mutually invigorating!)

However, this will make no fundamental difference either to the big-time tax evaders, or to the need for large-scale, secure, well-paid employment in industries that are appropriate to Ireland's size, skills and other resources. Progress on these two fronts is essentially a political matter, and the political alternative to capitalism in all its forms is developing very slowly in Ireland — though it *is* developing.

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# Proposal for a Basic Income in the Republic of Ireland

Chris O'Malley MEP

*In May 1988 Fine Gael officially adopted the idea of BI as a means of unifying the Irish tax and social welfare systems, but did not commit themselves to any specific set of proposals. Fine Gael is in the centre right of Irish politics. The Irish Greens have supported BI for many years. In this article Chris O'Malley sets out the outlines of a possible BI system, including its cost, its effects on income distribution and its effects on work incentives. O'Malley is well known for his advocacy of BI. In 1986, as MEP for Dublin, he submitted a resolution calling on the EC Commission "to investigate the medium or long-term possibility of developing a 'Basic Income' system throughout the Community". A BI system, he said, could boost the incomes of marginal producers, serve as an alternative and more effective mechanism than the common agricultural policy for fulfilling the Community's social aims, and help develop a "popular sense of European identity" (see BIRG Bulletin No. 6, Autumn 1986).*

The BI system described below has been costed at 1988 prices and incomes. In the pages that follow I shall show:

- how Ireland could finance a BI system
- how it would eliminate the poverty trap
- how it would affect people's net incomes
- how it would simplify the current ramshackle edifice
- how it would reduce unit labour costs.
- how it would reduce polarisation between employed and unemployed.

## Summary of the proposal

BIs of £2,080 a year (£40 a week) would be payable to everyone aged 18 years or over. Married couples would have their BIs paid separately to each partner. Children and young people up to age 18 would get £416 a year (£8 a week). The BIs would replace existing income tax reliefs and allowances, and the bulk of existing social welfare payments, but where the latter exceeded the BI, the excess over the BI would continue to be paid. Currently, the excess amounts to approximately 12% of all social welfare payments.

Income tax would be payable at a flat-rate 40% on all income except the BIs; all existing income tax reliefs and allowances would be abolished; and pay-related social insurance (PSRI) and health contributions for employees would be replaced by a 4% levy on all income (earned and unearned). So the *de facto* income tax rate becomes 44%. Additionally, on incomes below £100 a week the BI would be withdrawn by 20 pence out of each extra £ of income (earned or unearned), bringing it down to

£20 a week for people with other income of £100 or more. But the incomes of husbands and wives would be taxed independently. Therefore a non-earning wife would get a BI of £40 a week, regardless of the income of her husband.

To show the effects of these proposals, we can calculate the net income of someone earning £50 per week. The BI is £40 — (20% £50) = £30. Net weekly income becomes £58, made up as follows:

$$\text{Earnings } £50 - \text{tax } £22 + \text{BI } £30 = £58$$

For those with no income of their own, the BI functions as an automatic, non-stigmatising cash benefit. For those whose tax liability is higher than their BI, the BI functions as a tax credit or fixed-amount tax deduction. For those whose tax liability is lower than their BI, the BI becomes a topping-up mechanism. They get a reduced BI, because tax is deducted from it, but they are still net beneficiaries of the system, because BI received exceeds tax paid.

The BIs of third-level students would be financed by a corresponding cut in grants to colleges. Instead of means-tested grants, there would be means-tested fees.

An extra £360 million would be raised through alternative taxation.

### Effect of BI scheme on the annual net incomes of wage and salary earners Republic of Ireland, 1988

Gross earnings	Net income single person		Net Income single-wage MC+ 2 children	
	Present	Proposed	Present	Proposed
£	£	£	£	£
0 (unemployed)	2,080.00	2,080.00	4,628.00	4,992.00
1,000	1,000.00	2,440.00	1,361.20	5,352.00
2,000	2,000.00	2,800.00	2,361.20	5,712.00
3,000	2,722.50	3,160.00	3,361.20	6,072.00
4,000	3,297.50	3,520.00	4,361.20	6,432.00
5,000	3,872.50	3,880.00	5,361.20	6,792.00
7,500	5,310.00	5,240.00	6,388.70	8,152.00
10,000	6,559.00	6,640.00	7,826.20	9,552.00
12,500	7,556.50	8,040.00	9,263.70	10,952.00
15,000	8,429.00	9,440.00	10,701.20	12,352.00
17,500	9,479.00	10,840.00	12,170.20	13,752.00
20,000	10,529.00	12,240.00	13,470.20	15,152.00
25,000	12,629.00	15,040.00	15,780.20	17,952.00
30,000	14,729.00	17,840.00	17,880.20	20,952.00

### Effect on net incomes

The redistributive effects of the proposals are illustrated in Table 1, which refers only to wage and salary earners. In 1986 average earnings in Ireland were about £10,000 a year. Unemployed single people would neither gain nor lose as a result of the change. Single people at the top and bottom of the income distribution would gain, but those in the middle would lose. Some of the apparent gains at the top would be offset by abolition of tax reliefs

for mortgage interest (the maximum amount permitted in 1986 was £4,000) and private health contributions, an effect that does not show through in the table. People with investment income would also tend to lose, because of the 4% levy (replacing PRSI and health contributions, on *all* incomes).

Families with children would gain, at all earnings levels. But the gain for unemployed families would be very much smaller than the gains for lower paid families.

### Unit labour costs

It could be that employers would take advantage of the new system by cutting gross pay to the levels where net pay would be the same as before.

**Example:** A is a married man with two children, who earns £10,000 per annum and has a net income under the current system of £7,826. B is a single, unemployed person with an income of £2,080. With the new system, let us suppose that A's employer cuts his pay to £7,000. The employer then finds that he can also employ B for £5,000. A's net income goes up from £7,826 to £7,872 and B's net income goes up from £2,080 to £3,880.

### Results:

- B's income goes up by 86 per cent
- The cost per equivalent job for the employer goes down by 30 per cent
- The state saves £144 per annum
- Everybody gains

### Simplification

The BI system, when fully developed, has two main components:

- A standard BI payable to every individual
- A standard rate of tax payable on all income

The figures outlined above would bring us more than three quarters of the way towards this system.

The following features and schemes within the existing system would be rendered redundant, because their purpose would be served automatically:

- Different tax rates for single and married people
- Varying tax bands and tables
- Varying personal tax allowances
- Separate PRSI and health contributions
- Enterprise allowance scheme
- Social employment scheme
- Employment incentive scheme
- Work experience schemes
- Family income supplement
- Means tests
- Unemployment assistance
- Widow's allowance
- Deserted wife's allowance
- Unmarried mother's allowance etc



This radical simplification would bring the following major benefits:

- Less bureaucratic prying into people's lives
- No formal distinction between a "welfare class" and others
- Radically reduced scope for fraud
- Much less scope for *clientelist* politics
- Greater confidence for citizens in understanding their position
- Lower administration costs for both state and citizen

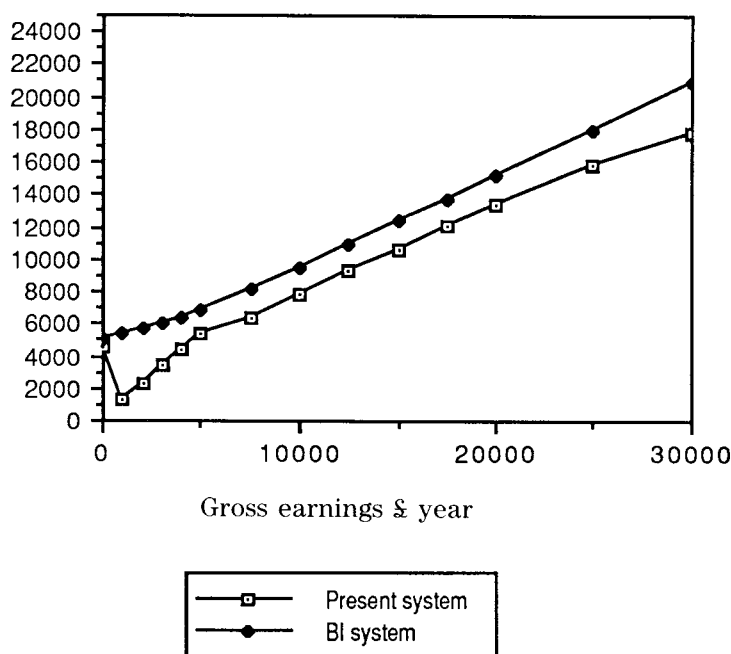
## Incentives to work

Under the present system, a single person needs to earn over £2,000 and a couple with two children needs to earn nearly £4,500, before they start to be better off working than not working. That is without taking account of work expenses. The marginal tax rate can be well over 100%. With the BI system this could not happen. The marginal tax rate is never more than 64%, and on earnings above £5,200 it falls to 44%.

Figure 1 compares the curves of net income implied in the existing and proposed systems. The figures refer to a married man with two children. At present a two-child family needs earnings of about £4,500 in order not to lose out by taking paid work. If the job involves high travel-to-work costs, they need even more. But with BI even a wage of £1,000 would be better than nothing. Some people may argue that a tax rate of 44 per cent is too high. But it compares favourably with the existing system in Ireland, under which most people face marginal tax rates of between 42 and 58 per cent.

## Net incomes, single-wage MC + 2 children Republic of Ireland 1988-89

Net incomes  
£ year



## Financing the system

The total cost of the BIs is £4,152 million, financed as follows:

	£ million
Extra income tax	1,474
Social welfare savings	2,018
Other savings	300
New or alternative taxes	360
	<u>4,152</u>

Look now at the components of this calculation:

**(1) Cost of the BIs:** these are paid at the rate of £416 per annum for those under 18, and between £1,040 and £2,080 for those over 18, depending on whether or not they are earning, and if so how much. The cost of the BIs is calculated as follows:

	£ million
1.1m people receive £1,040	1,144
1.2m people receive £2,080	2,496
1.23m people receive £416	512
	<u>4,152</u>

**(2) Extra income tax:** estimated total personal income in 1988 was £10,500m. A tax of 44 per cent on all income would therefore yield £4,620m. The increased tax yield by comparison with the existing system is because the BI replaces reliefs and allowances, which are abolished.

	£ million
Yield of new income tax	4,620
less Yield of current income tax (estimate)	2,706
less Yield of employee PRSI (estimate)	440
	<u>1,474</u>

**(3) Social welfare savings:**

	1988-89 Budget £ million	Amount saved £ million
<b>Social insurance</b>		
Disability benefits	213	203
Invalidity benefits	101	89
Maternity benefits	19	18
Old age pension	271	205
Retirement pension	144	108
Unemployment benefit	245	234
Widows/orphans	232	162
Deserted wives	32	24
<b>Social assistance</b>		
Old age pension	292	259
Child benefit	213	128
Unemployment	444	444
Widows/orphans	45	37
Social assistance	72	58
Supplementary	44	44
Family supplement	5	5
<b>Total saving</b>		<u>2,018</u>

**(4) Other savings:** the BI amounts would be deducted from all public service pensions, higher education grants and trainee allowances. They would also be deducted from the amounts payable to farmers through the Common Agricultural Policy (CAP), which in 1988 averaged about £200 per farmer per week.

	£ million
Public service pensions	80
Third level/higher education subsidies	80
Trainee allowances	40
EC farmer income aids*	100
	<hr/> 300

\* Assuming that current trends continue. Total receipts from the CAP in Ireland were more than £900 million in 1988.

**(5) New or alternative taxes:** Fine Gael are seeking to cut tax rates by widening the tax base. Their aim is a standard rate of income tax of 25 per cent and a top rate of 40 per cent. To achieve this they need to raise an extra £660 million, which they propose to do by abolishing income tax reliefs and introducing new taxes.

The introduction of a BI system would represent a better deal for people on lower incomes than the introduction of a 25 per cent standard rate under the current system. It is proposed here to bring the top rate down to 40 per cent and levy a further 4 per cent in lieu of PRSI and health contributions on all incomes. In other words, the figures produced here would preserve the spirit of Fine Gael's short-term tax goals, under the more medium-term conditions of a radically changed system.

The £660 million referred to above would come partly from abolished tax reliefs and partly from raising other taxes. The cost of mortgage interest and private health reliefs under the present income tax system is in the order of £300 million. It is therefore proposed that a further £360 million be raised through a combination of some, or all, of the following changes:

- abolition of corporation tax allowances
- reduction of industrial grants
- introduction of new capital taxes eg a wealth tax, or re-introduction of domestic rates

Since it would be cheaper to employ labour under the new system, it is reasonable to expect employers to pay a slightly higher contribution in other ways. This change would shift the balance of taxation towards capital-intensive industries, and away from skill-intensive industries.

*Chris O'Malley is a former Chairman of Fine Gael's youth section, and its main proponent of a BI for Ireland. In 1984 he became the youngest member of the European Parliament, where he sits with the Christian Democrats.*

## At Home and Abroad

### FRANCE

#### *Revenu minimum d'insertion (RMI)*

**James Jaboureck writes:** Until now France has had nothing comparable to Britain's supplementary benefit/income support, Germany's "Sozialhilfe", Belgium's "Minimex", or the social assistance benefits that form an integral part of social security in Holland and Denmark. France's *Revenu Minimum d'Insertion (RMI)*, voted in by the law of 1st December 1988, is now in the process of being introduced. About 1.2 million people are expected to benefit from it.

The new system stems directly from the report *Grande Pauvreté Économique et Sociale* (otherwise known as the Wresinski report), submitted to the French Economic and Social Council (CES) in February 1987. Father Joseph Wresinski, who prepared the report, was the founder and driving force behind the international movement ATD Fourth World, which promotes the interests of the very poorest families.

France's RMI has three main characteristics:

- (1) Its aim is:
  - to provide a guaranteed income that is sufficient to meet the physical and social necessities of its recipients
  - to allow their re-integration ("insertion" or "re-insertion") into mainstream society
- (2) Although it is a legal right, it has three main conditions:
  - the claimant must be aged 25 years or over, or less than 25 years with a dependent child
  - the claimant's own income (including benefits for children) must fall below the following monthly amounts: Frs 2,000 for a single person; Frs 3,000 for a couple; Frs 3,600 for a couple with one child; Frs 4,200 for a couple with two children; and Frs 600 for each successive child.
  - the claimant must sign a contract ("contrat d'insertion") committing him/herself to participation in "social and professional life".
- (3) If these conditions are met, the beneficiary will be paid the difference between his/her own income and the appropriate guaranteed amount. If the beneficiary's own income goes up the RMI is withdrawn franc for franc.
  - eg the guaranteed amount (RMI) for a family with two children is Frs 4,200 a month (just over £100 a week). If the family has Frs 1,000 of its own, the RMI payable will be Frs 3,200.

The RMI will be paid for a period fixed by law. But if the claimant does not fulfil his/her obligation to take work or training when it is offered, benefit will be stopped, and a new benefit claim will not be considered until after a period of time fixed by law.

RMI recipients will also receive credits for sickness insurance.

To date very few ATD Fourth World families in France have signed the new contracts. Many know nothing about them. Others, especially large families and families with older children, have no entitlement, because the RMI amounts for children are approximately the same as existing benefits for children. It could even be that some families will be worse off than before, having lost their right to social aid (ASE) and, in some cases, medical aid.

The danger is that the RMI will help some families but exclude others, setting one against the other. Preparation of the insertion contracts has so far made little progress. One of the difficulties is lack of contact between social services and the business sector, and between social services and the rest of the public sector, eg education. To be successful the RMI will require a lot of imagination on the part of all concerned. There will also need to be plentiful consultations with the RMI's potential beneficiaries. "How", writes Bruno Couder, "can the RMI succeed if those most affected — the poorest — are not actively recognised as partners?"

## ITALY

### ***International seminar in Rome on citizenship rights and guaranteed income***

**Bill Jordan writes:** Eight members of BIEN (Alexander de Roo, Bill Jordan, Edwin Morley-Fletcher, David Purdy, Guy Standing, Philippe Van Parijs, Walter Van Trier and Georg Vobruba) took part in a seminar on the future of income maintenance, in Rome on April 5-7th, 1989. We were guests of the Istituto di Ricerche Economiche e Sociali (IRES), the research institute of the CGIL, Italy's main Trade Union Confederation. Other participants were leading academics in labour market studies, poverty and social security, the chairman of a recent Italian committee on social assistance, and a French expert who spoke about France's new *revenu minimum d'insertion* (RMI).

On the first day of the seminar, the debate was somewhat diffuse, with the Northern Europeans occasionally failing to grasp the nuances of Italian disputes, and the Italian experts seeming to find some BIEN contributions rather abstract and speculative. In particular, the fact that the Italian social assistance system is fragmented between a number of schemes, and that a new unified, national, means-tested and conditional guaranteed income is under consideration, made BI seem a distant prospect. However, on the second day the debate moved forward, and there was an active dialogue about the relevance of BI for labour market participation, training and the recognition of unpaid work. The exchanges were stimulating and enlightening.

The conference then shifted to the CGIL headquarters, where a large meeting, attended by politicians, officials and trade unionists, and extensively filmed by attendant video/TV crews, engaged with the topic. Dr Elio Giovannini of IRES gave a very lively opening address, and Claus Offe, who had just arrived from a political meeting in West Germany, put forward the case for BI. There followed an impressive and thoughtful response from Bruno Trentin, President of the CGIL, and shorter contributions from Guy Standing on labour market implications, and Philippe Van Parijs (impressively in Italian).

The whole seminar gave rise to hopes of BI reaching the political agenda in Italy in the near future.

## UNITED KINGDOM

### ***Chancellor abolishes pensioner earnings rule***

**Hermione Parker writes:** In his 1989 Budget Chancellor Nigel Lawson announced abolition of the pensioner earnings rule, with effect from October 1989. Under present law Category A pensioners can earn £75 a week before their pensions start to be withdrawn, and Category B pensioners (wives claiming through the contributions of their husbands) can earn £34.70. The Tories included abolition of the earnings rule in their 1979 election manifesto, but they had prevaricated for so long that the news came as a complete surprise. For 8½ million out of Britain's 10 million pensioners, ie those who do not have to depend on income support, it is an important step in the direction of BI. However much more needs to be done. The basis of entitlement needs to become age instead of contribution record, and the age of entitlement needs to become the same for men and women. At present it is 65 for men and 60 for women, with no prospect of reform, despite pressure from the EEC Commission for equal treatment of men and women.

If the Chancellor is interested in equity between different groups of pensioners (men and women, with and without an occupational pension), and between the pensioner population and the population of working age, he should not stop here. Removal of the earnings rule, though welcome in itself, accentuates present anomalies. The tax treatment of Britain's pensioners is excessively favourable by comparison with the working population. Income tax allowances for the over-65s are significantly higher than for everybody else, and pensioners are exempt from national insurance contribution *even when they are earning*. Tax break-even points (where tax paid starts to exceed benefit received) are consequently far, far higher for pensioners than for working couples with children, yet the taxable capacity of families with children is lower.

While one in six of Britain's pensioners get less than the full NI pension and have to depend on means-tested income support (weekly entitlements £46.10 for single people and £71.85 for couples, plus rent), an increasing number are doing unprecedentedly well, hence the nickname "golden oldies". With BI, abolition of the earnings rule would be accompanied by higher tax liability — due to unification of NI contribution with income tax.

The extra revenue received would be used to increase the basic pension, and make it non-contributory. The aim is to lift all older people off income support, so that all can benefit from abolition of the earnings rule.

## Book Review

### **Stepping Stones to Independence: National Insurance after 1990**

**Brandon Rhys Williams, edited by  
Hermione Parker**

Aberdeen University Press, Farmer's Hall, Aberdeen  
AB9 2XT, 58 pp, price £4.95

#### **Baroness Seear writes:**

The search for an effective and workable system to integrate the payment of taxes and the receipt of social benefits has been going on for decades. All the main political parties have examined the idea and recognised its attractions, but have been daunted by the practical difficulties of implementation. Many politicians have considered its advantages, but have abandoned it as being too difficult to put into practice.

Not so Sir Brandon Rhys Williams, who died last year prior to publication of this book, which has been edited by Hermione Parker, who had worked with him on the project for a number of years. The scheme he proposed would "let every individual receive from the State an unconditional, tax-free Basic Income, the level of which would depend only on age ... Let this replace the general run of existing benefits and let it be financed by a single charge in the form of a general rate of income tax".

The objective is clear and attractive to many people across the party political divisions. The reason no progress has been made in the implementation of such a scheme is its cost and administrative complexity.

The special value of this publication is the way in which it tackles both these issues. In some quarters the idea of BI has been and still is used to imply a BI that is enough to live on. It is however clear that any acceptable definition of a minimum subsistence level requires a quite unacceptable level of taxation to finance it. But, as this book makes clear, a BI at less than subsistence level can be of great value to low-level earners, especially when it is accepted that additional payments would continue to be made to particular groups, including, for example, housing and disability benefits.

It is also accepted that so great a change cannot be introduced at a stroke. The book deals in detail with the stages that would be necessary to move from the existing system to a substantially integrated system. A staged approach provides the double advantage of easier acceptability and the opportunity to experience the strengths and limitations of integration, as it is gradually introduced. The book provides detailed tables, explains how the scheme would work, how much it would cost, and identifies groups of losers and gainers.

This is a scheme whose time has come. Modern technology makes it at last a practical proposal. Based



on the individual, regardless of sex or marital status, a basic income is admirably suited to today's recognition of women's rights as individuals. It is also timely, in view of the changes rapidly taking place in attitudes towards the welfare state. While it is widely recognised that the welfare state, as it emerged after the Second World War, is not and should not be set in concrete, there is also a widespread fear that it is being in part dismantled, with little consideration of alternative provision.

"The New Social Contract," says Sir Brandon "must combine the benefits of security and unity afforded to the citizens of communist societies into the personal freedom and self-respect which are the best characteristics of the property-owning democracies". This book does much to point the way ahead.

*Baroness Seear worked at the London School of Economics from 1946-78, where she was a Reader. At present she chairs the Social and Liberal Democrats (SLD) working party on tax and benefit reform.*

## Books Received

**Proceedings of the First International Conference on Basic Income (Louvain-La-Neuve, September 1986)**, edited by Anne Miller, obtainable from Anne Miller, Department of Economics, Heriot-Watt University, Edinburgh, or from Walter Van Trier, BIEN, Bosduifstraat 21, 2018 Antwerpen, Belgium (price BF 350 for BIEN members, otherwise BF 400).

**Just Sharing: A Christian Approach to the Distribution of Wealth, Income and Benefits**, edited by Duncan B. Forrester and Danus Skene. Report by a working party convened by Duncan Forrester, Professor of Christian ethics, University of Edinburgh. Epworth Press 1988, 130 pages, price £5.50.

**The Common Good: Citizenship, Morality and Self-Interest**, Bill Jordan, Basil Blackwell, 1988, hardback £20, paperback £8.95. In the late 1980s there is a political battle for the 'moral high ground'. The winners appear to be those who claim that the essence of morality is individual choice. Margaret Thatcher has even claimed that it can give rise to the 'generous society'. Bill Jordan here examines the philosophical and political arguments for social institutions that rely on individual self-interest and personal responsibility. He argues that they must be taken seriously, but are ultimately self-defeating. Under modern economic conditions, society is divided into two conflicting interest groups. The result is a deteriorating quality of life for all. A good society must be built on common interests in good social relations. All must be included as members of the community.

**Social Power and the Labour Market: A Radical Approach to Labour Economics**, David Purdy, Macmillan 1988, pp280, paperback £9.95. This book deals with the power relationships between employers, workers and their organisations in capitalist societies. It begins with a critique of neoclassical economics (the current ruling orthodoxy) and the older, classical/Marxist tradition of political economy. This critique leads to an analysis of social power which emphasises the tendency of the dominant culture to exclude certain potential issues and claims from the agenda of public debate and policy. The resulting 'three-dimensional' model of power is then used to investigate the composite pattern of domination and subordination generated by the nature and logic of capitalism, gender division and occupational hierarchy. The second half of the book shows how the unequal distribution of income, work and power can and should be transformed. It argues that Basic Income offers an indispensable guiding principle for redesigning the social division of labour and income distribution. The book concludes with an assessment of the economic viability, ethical dilemmas and political feasibility of a BI strategy.

**European Unemployment Insecurity and Flexibility: A Social Dividend Solution**, Guy Standing, International Labour Organisation (CH-1211 Geneva), January 1989, pp 52, available on request. BI recommended as "a strategy to reduce inequality while promoting economic growth".

**Who Benefits, Who Pays?** Submission by the Justice Commission of the Conference of Major Religious Superiors to the Irish Parliament on aspects of the 1989 Budget, CMRS, Milltown Park, Dublin 6, Republic of Ireland, 1989 pp47.

The Conference, which represents more than 1300 religious communities in Ireland, warns against growth of a permanent underclass, and argues in favour of a Guaranteed Basic Income.

**Stepping Stones to Independence: National Insurance after 1990**, Brandon Rhys Williams, edited by Hermione Parker, Foreword by The Rt Hon David Howell MP, Chairman of the One Nation Group of Conservative MPs, Preface by Professor James E Meade. Aberdeen University Press 1989, pp 58, paperback £4.95.

A short guide to the limitations of the existing UK tax and benefit systems, a warning against the residual welfare state now being foisted upon us, a summary of the Parker/Rhys Williams **Basic Income Guarantee** proposals, and a detailed account of one BIG Phase 1 option, costed for 1988-9 (See Book Review).

**On the Ethical Foundations of Basic Income. Part 1: Libertarian, Utilitarian and Marxian: Part 11: Liberal**, Philippe Van Parijs, Université Catholique de Louvain, Unité Problématiques Interdisciplinaires (1 Chemin d'Aristote, B-1348 Louvain-la-Neuve, Belgium), working papers CMID 31 and 32, February 1989, pp74, BF 150.

Preliminary version of a systematic discussion of the ethical case for BI.

**Instead of the Dole: An Enquiry into Integration of the Tax and Benefit Systems**, Hermione Parker, Routledge May 1989, pp 437, hardback £40, paperback (Oct 89) £12.95.

Major investigation into the aims and technicalities of integration, distinguishing between Negative Income Tax, Basic Income and hybrid schemes. Detailed analysis and assessment of four UK hybrid schemes (the Liberal Party's Tax-Credit proposals, Professor Patrick Minford's conditional NIT, Rhys Williams/Parker's *Basic Income Guarantee*, and the Social Democrat's basic benefit scheme). Recommended solution is a modified, partial BI system (*Basic Income 2000*), with one integrated component and one operated along traditional lines. Detailed analysis of first transitional phase (*BIG Phase 1*), summary of second phase. Four technical appendices, including one which explains the techniques used to cost BI.

**Basisinkomen kent geen grenzen/No Frontiers to a Basic Income**, Voedingsbond FNV, Postbus 9750-3506, GT Utrecht — 030-73833, April 1989. Available free in English and Dutch. Contribution to the BI debate, at a European level, by the Food Workers' Union of the main Dutch Trade Union Confederation. The Voedingsbond FNV wants ordinary people — young and old, with or without paid work — to have a future within the Europe of tomorrow.

**Who Framed Social Dividend? A Tale of the Unexpected**, Walter E. Van Trier, Rapport 89/230, SESO University of Antwerp, Faculteiten Sint-Ignatius, Department Economische Wetenschappen, Prinsstraat 13 — B-2000 Antwerp, Belgium.

Some preliminary notes on the roots of 'Social Dividend' featuring J.E. Meade, A.P. Lerner, G.D.H. Cole, Joan Robinson.

**Agathotopia (the good place, but not the impossible Utopia)**, James Meade, Professor Emeritus of Political Economy, Cambridge University. Aberdeen University Press, £6.95, 1989.

**Economy of Partnership**: a tract for the times addressed to all capitalists and socialists who seek to make the best of both worlds.

# VIEWPOINT

## A seat at the board

Kevin Donnelly

*"... the best among the poor are never grateful ... Why should they be grateful for the crumbs that fall from the rich man's table? They should be seated at the board, and are beginning to know it."*<sup>1</sup>

Thus wrote Oscar Wilde in a famous essay. His words are a timely reminder of one of the central propositions of Basic Income: that all wealth is socially produced, and should therefore be socially shared.

BI is beginning to be seen as a human right similar to the right to vote, to marry, to have children, and to participate in society. Without adequate food, clothing and shelter, mutual care and education (which a BI will promote), those rights cannot be established.

It is not only the unemployed who need a BI. Employment has never provided an adequate living standard for low-income, working-class people in England. My father worked continuously throughout the 1920s and 1930s as a skilled joiner in the building trade, but material poverty grew with each addition to the family. Rehoused on a new council estate in 1928, just after I was born (their fifth and last child), my parents found their rent nearly trebled to 15 shillings a week, about one-third of their income. My father always worked in bad weather, because no-work-no-pay was the rule, and I recall him cycling off to work in clothes still wet from the previous day. Chronic bronchitis eventually dogged him every winter and diminished his ability to work, and his earnings. My father-in-law worked continuously for fifty-two years, yet his family were often in straitened circumstances. He died intestate and understandably so, for he left little besides some chattels and his funeral expenses.

## Britain's new poor

In Britain the limited steps taken after World War 2 towards ensuring a national minimum that would be adequate and non-stigmatising, are now being threatened. Not just threatened, but reversed. Wherever jobs are lost, crafty wage reductions implemented, "flexible" (ie worse) working conditions imposed, "voluntary" overtime encouraged, along with celibacy requirements (as evidence of career commitment in some well-known High Street stores), working people are degraded. BI would surely help break this spiral.

The polarisation of employment into primary and secondary categories (sometimes called core and periphery) results in a minority of well-paid, secure jobs dominated by men, and a larger group of poorly-paid, insecure jobs lacking employee status, often in unhealthy premises,

lacking employee status, often in unhealthy premises, with women much more in evidence. This larger group is rarely unionised, often hates the job, yet fears the dole queue even more. And understandably so, for redundancy means telling your family you have no job, cancelling holidays, tightening belts, and going through the dreaded, demoralising form-filling business of "signing on".

In the week before Christmas 1988, I waited at the DSS offices here in Wythenshawe, a large housing estate in South Manchester described by its MP, Alf Morris, as "an inner city area with trees", and by local wits as the kind of place where tenants who pay the rent for three weeks running are visited by the police to find out where the money came from.

The man in front of me explained that his giro was usually for £57, but his most recent one had been cut by £20 without explanation. The girl behind the shatter-proof glass went away for a few minutes, then returned with a whispered message that sent him on his way. Whether he was pleased or not was unclear. The woman whose turn came next had not received her giro at all. She too trudged away, pushing a trolley with her baby in it, but only after slightly raised voices suggested disagreement. The man behind me was due for a Restart interview. One week to Christmas, and no money. Scrooge, it seems, is alive and well.

## A watershed

The picture is familiar to anyone in social work, and to that one third of Britain's population with first-hand experience of bad housing; cold, wet and hungry winters; uncertain, unreliable and inadequate income; degrading, dirty, dangerous and ill-paid jobs. There is nothing new in this picture. But when the Times Educational Supplement carries a front-page article (16.2.88) with the headline "Thousands of youngsters face penniless Christmas", followed by searching reports about the failures of current employment and welfare policy, some sort of watershed must have been reached. It may be that the time has come to shift the focus of the debate about poverty — to stop talking about mitigating it, and to start talking about terminating it.

Oscar Wilde's article and the Times Educational Supplement report are separated by almost one hundred years of official myopia, ritual hand-wringing, grudging and partial provision — followed now by the reappearance of horrors that we thought had disappeared, like malnutrition, and children kept away from school because they lack the necessary shoes and clothing, or even the busfare.

## Getting the BI message across

For people caught up in the new poverty the Basic Income principle shines with possibilities. Certainly it is no panacea, as Francis Pym said in the House of Commons in 1986<sup>2</sup>, but it would be a step forward. It is a step forward that needs to be taken, and the classic approach is still relevant: agitate, educate, organise. BIRG has competent and knowledgeable supporters in its educational and research activities, validating its principles and refining them into simple ideas and epigrams. That work needs to continue.

Others, including myself, see the principle as established, taken for granted even, and the very difficult work of building support groups has to be expanded. Getting the victims of the present system to stop supporting it is one of the tasks I have set myself. Progress is slow, but so were the campaigns for parliamentary reform, women's suffrage, universal education and free health care. The difficulties should not be under-estimated, but neither should they be exaggerated. The watershed referred to above is seen in a wider perspective in *The Living Economy* (ed. Paul Ekins)<sup>3</sup>, where the inadequacy of the current economic system, both in practice and in theory, is exposed, and an outline of the New Economics is plausibly presented, including the case for BI.

## The wealth creation trick

Dignity and respect for all require fair shares of existing wealth, so to put all the emphasis on the creation of new wealth is misleading. Making a bigger cake does not of itself make for fairer shares, for if the distribution of existing wealth is unfair, creating new wealth will not remove the unfairness. On the contrary, it is just as likely to make it worse. And that is what is happening in Thatcher's Britain now. In Chesterton's words, it is the revolt of the rich against the poor.

When Lloyd George, in 1918, promised a "Britain fit for heroes", he coined a slogan that many recall with cynicism, for those heroes quickly found themselves betrayed. They worked (when they could get work) at low rates of pay; they endured wage cuts and longer hours, varied only by the misery of the dole queue and the means test. Their descendants have yet to find a Britain fit for *all its people* to live in. Dignity and respect cannot wait for wealth creation indefinitely. How much wealth creation must there be before all can be seated at the board? Such thinking is deluded romanticism born of subtle propaganda.

## BI offers everyone a seat at the board

The agencies opposed to change are powerful but by no means irremovable. If the principle of inherited wealth is acceptable, as the rich and powerful insist, then so is the principle of inherited debt. The propertyless, common people, descendants of generations systematically robbed and exploited in the pursuit of private profit, have a claim to make upon the common wealth to which their ancestors contributed. The Basic Income principle expresses that claim precisely.

*Kevin Donnelly is currently supply teaching, writing articles and leaflets, after a career as high-school dropout, toolmaker, clerk, sales manager, then teacher. At present he is trying to foster a Basic Income dialogue in the North West. The next step is a one-day workshop in Manchester on October 7th 1989. Details on inside back cover of this Bulletin, or telephone 061-998 4791.*

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### References

1. Oscar Wilde, quoted in Ellman, R. (ed): *The Artist as Critic — The Critical Writings of Oscar Wilde*, W.H. Allen, London 1970, p 285.
2. BIRG Bulletin No.5 (Spring 1986) and Hansard Vol 90 No.45, cc840-2.
3. Paul Ekins (ed): *The Living Economy*, Routledge, 1986.

# Letters

*We welcome your letters, queries and comments, but please restrict them to one side of A4, and type them if possible.*

## **From Hans Breitenbach** **BI as a tax credit**

The thought of BI as a tax credit horrifies me, as it threatens one of its fundamental features. I have elsewhere written of BI as a powerful bastion against state bureaucracy. People need to prove nothing beyond their existence to establish an entitlement.

A person's tax position is a totally different kettle of fish. Complications, delays and elaborate form filling are not confined to the well off or those with unearned incomes. Every building labourer, every casually or self-employed fisherman confronts complication and delay when there is any change in his employment status — not to speak of the tens of thousands who are itinerant or just one way or another outside the complicated national insurance and tax system with its PG4s, NS 416s, Q98s, or whatever they call them. They are not popular, but quite essential in the tax context.

Ask any mother whether she'd like to see her children's allowance converted to a tax credit.

Only someone not conversant with administrative procedures would be tempted to think that it is simpler and cheaper to adjust tax bills than to have two separate, albeit counterflowing, transactions: one collecting tax and the other paying out BI against a book of vouchers.

There are enough real difficulties to overcome to make BI a reality, so please do not propose to degrade its essence and add an administrative complication, all with one stroke.  
Yours truly

Hans Breitenbach, The Bridge House, Knaresborough, N. Yorks.

## **The Editor replies:**

The problem you raise is largely terminological. The word tax credit used in the present context dates from the Heath Government's *Proposals for a Tax-Credit System*, published in 1972. In exchange for abolition of single person's and married man's income tax allowances, the Green Paper proposed introduction of weekly tax credits of £4 for single people, £6 for married couples and £2 for children. For taxpayers the credits would have been fixed-amount tax offsets, but for non taxpayers they would have converted automatically and unconditionally into cash. Although the 1972 proposals were never put into effect, the idea caught on. Tax credits became the official policy of the Conservative Party until well into the 1980s, and in 1983 the Liberal Party approved a more comprehensive scheme, with publication of Philip Vince's pamphlet *To Each According ... Tax Credit — Liberal Plan for Tax and Social Security*.

The term Basic Income (in its current sense) was not used in the UK until the 1980s. In 1981 the late Sir Brandon Rhys Williams MP and myself decided to use it in preference to tax credit. Its first official use was in July 1982, when Sir Brandon submitted evidence to the House of Commons Treasury and Civil Service Select Committee Sub Committee enquiry into the Structure of Personal Income Taxation and Income Support. BIRG was set up in 1984 and one of the first decisions taken was to use the words Basic Income in preference to tax credits, social dividend, national dividend or any other.

A tax credit (provided it converts into cash for those without the income to set against it) is synonymous with BI. Much confusion was caused in 1984 when the Institute for Fiscal Studies published proposals for reform of tax and social security in which the term tax credit was used to refer to fixed-amount income tax deductions that did not convert into cash (*The Reform of Social Security*, Dilnot, Kay and Morris). There are nevertheless some people, especially in the Conservative Party, who relate better to the idea of TCs than BIs, so it would be foolish to jettison the term entirely.

Concerning administration, of course you are right. Simplicity is one of the main objectives. Ideally the BIs would be credited monthly through the banking system or GIRO, and withdrawn (from those with other income) through the tax system afterwards.

# Basic Income Research Group

## STEERING GROUP

*Tony Walker, chairman*  
*Malcolm Torry, secretary*  
*Anne Miller, treasurer*  
*Conall Boyle*  
*Bill Jordan*  
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# BIRG and BIEN Programmes

## BIRG

Saturday 10th June from 10.30am  
one-day conference at TOYNBEE HALL  
28 Commercial Street, London E1:

### **Basic Income and the New Politics of Citizenship**

Saturday 7th October 10.00am  
one-day workshop at the Friend's Meeting House,  
Wythenshawe Road, Manchester. Details from: Kevin  
Donnelly, 20 Nan Nook Rd, Manchester M23 9BZ

### **Basic Income and Dependency**

Friday 10th November 10.30am-4.30pm  
one-day seminar at Highbury Hall, Mosley,  
Birmingham. Details from: Conall Boyle, 6 Vicarage Rd,  
Harborne, Birmingham B17 OSP

### **Basic Income and Ethnic Minorities**

## BIEN

Friday 1st September 1989 to Saturday 2nd  
September, academic conference on the ethical  
foundations of BI, at the Université Catholique de  
Louvain (Louvain-la-Neuve, Belgium):

### **Liberty, Equality, Ecology.**

Four sessions to examine the ecological, egalitarian,  
libertarian and communitarian cases for BI.

Speakers; Claus Offe, Robert Goodin, Michael Taylor,  
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