Money for everyone?

An appendix to chapter 15

Some additional alternatives to a Citizen's Income

In chapter 15 we study three proposals for reform of the benefits system with characteristics similar to those of a Citizens' Income: a Negative Income Tax, genuine Tax Credits, and a Participation Income. In this appendix we study some additional alternatives: improved National Insurance benefits, a universal grant, universal in-kind benefits, a household based Citizen's Income, and a hybrid scheme from the Institute for Fiscal Studies.

Improved National Insurance benefits

In 1994, the Labour Party's Social Justice Commission favoured improved National Insurance benefits. [1] An increase in the value of National Insurance benefits would lift some families receiving them off means-tested benefits and would thus provide many of the advantages that a Citizen's Income would give to them. The downside to the proposal is that National Insurance benefits are given for short periods, and that their receipt depends on contributions records. The upside is that benefits that declare themselves to be 'insurance' are psychologically acceptable. We feel that we have paid our premiums, so when we need the benefits we feel that we deserve them. Benefits are 'something for something'. [2] The problem is that this is largely a myth. National Insurance Contributions paid in do not match National Insurance benefits paid out. They have never matched them since the basic state pension, a National Insurance benefit, was implemented when the National Insurance system was founded after the Second World War. For many of those who have paid contributions, an increase in the value of National Insurance benefits, and extensions of the risks covered and of the length of payment, would increase employment incentives because all or more of their income would be less subject to withdrawal as earned income rose. The larger the number of people who are credited with contributions, and the more adequate the benefits paid, the more effectively will enhanced National Insurance benefits improve incentives, reduce stigma, and increase social cohesion; and if National Insurance benefits were to be somehow extended beyond old age, sickness and unemployment and into employment, the more they would alleviate the problems that people experience as they move from unemployment to employment and back again. Without these changes National Insurance benefits will never take the pressure off means-testing and so will not be able to offer major social, economic and labour market effects.

The 'improved insurance benefits' route is the one that Steven Webb is taking in his proposal for a Single Tier State Pension in which a National Insurance record will entitle the citizen to a flat-rate pension higher than the current Basic State Pension. Numerous pensioners will be removed from means-testing, so there will be more incentive to save for one's old age. The Single Tier State Pension would be a long step towards a Citizen's Pension. All that would be required to finish the job would be to remove the condition that a full National Insurance Contribution would be needed. Relatively few of those who reach pension age do not have a substantial contributions record, and those who do not will in any case be on a means-tested pension supplement and will therefore be receiving an income of the same value as the pension received by those on the Single Tier State Pension. To remove the condition would not cost money and it would save on administrative costs.

A particular problem with the current means-tested Pension Credit is non-take-up: a much-researched topic. One conclusion of a research project at the University of York is that 'if a radical solution such as the Citizen's Pension were to be used, solving non-take up would not be technically difficult, and at a sweep most of the problems could be dealt with.' [3] It need not be expensive. As the Institute of Actuaries has suggested, to implement a universal pension would cost just one third of the cost of tax relief on private pension contributions; and a universal and unconditional pension would mean that pensioners would retain the benefit of their savings, thus making it more likely that people would pay for private pensions, [4] meaning that the tax relief incentive would no longer be as necessary as it might be now.

The same would be true of a Citizen's Income in relation to enhanced National Insurance Benefits. A Citizen's Income would do for more families what enhanced National Insurance Benefits would do for some families, and it would do it permanently and not in the time-limited way in which National Insurance benefits operate. So if National Insurance benefits are considered as a viable way of improving our benefits system, then they should be evaluated both in their own right and as a step towards a Citizen's Income.

'National insurance' is the British version of 'social insurance': a term used to describe the social security arrangements in many of the world's nation states. The problem with the 'social insurance' label is that it covers such a wide diversity of schemes. In countries where there was previously no social security system, or where a patchwork of private provision left large numbers of people without financial support when they needed it, a government social insurance scheme can be an acceptable step in the right direction. 'The principle of social insurance appeals partly to the rational self-interest of the individual, assuring them of access to benefits not normally attainable through private means, but also partly to their natural sentiment of solidarity and respect for other human beings.' [5] Some schemes are not far from being Citizen's Incomes: others are a long way from it, because they are time-limited, or income-tested, or closely related to the number of contributions paid, or otherwise conditional. It is possible that in some countries improving the social insurance scheme would create outcomes close to those that a Citizen's Income would deliver, but it is reasonable to assume that any social insurance scheme with similarities to the scheme in the UK would not.

A universal grant

Is it more important to tackle inequality in the distribution of wealth, or inequality in the distribution of income? They are not disconnected, of course. Wealth can create income, and income can create wealth, so their inequalities are connected. Wealth inequality is as much an issue as income inequality, [6] though perhaps it is an inequality less noticed. Public debate has been vociferous about chief executive bonuses, but the extremes of wealth amassed by the inventors of social media technology attracts rather less adverse comment. Equally vociferous, and in this case policy-forming, are the insults heaped on benefits 'scroungers': benefits recipients felt not to be contributing to society. Less comment is heard on the idle rich, who will generally be consuming rather more than benefits recipients do, and might be contributing rather less to society. [7] Simply in terms of tackling inequality, there would seem to be at least as much of a case for a one-off universal grant as there is for a regular Citizen's Income.

As we saw in chapter 5, Alaska pays a universal dividend once a year. This really is a 'dividend': a share of the annual profits on a permanent fund. James Meade's suggestion of a Social

Dividend – a share of the profits on national assets – is a similar concept. So the funding method is different from that of the Citizen's Income schemes that we have been discussing, which are generally funded by reducing tax allowances and means-tested and contributory benefits; and the payment is generally made annually rather than weekly or monthly, though there is no reason in principle why a dividend should not be paid more frequently than that.

Would an annual payment be preferable to a Citizen's Income in any way? The downside might be that people would spend it all at once and be left without sufficient funds for the rest of the year. The advantage would be that it would provide a degree of freedom that a weekly or monthly Citizen's Income would not provide: thought it might also be said that a Citizen's Income would enable freedom to be exercised once a week or once a month, rather than just once a year. Perhaps a combination of a Citizen's Income and an annual citizen's grant would provide the best of both worlds: [8] for after all, if someone knows that they will receive a Citizen's Income throughout their lives, then there is no reason why it should not be possible to raise a loan to be paid off using the Citizen's Income, thus effectively turning the Citizen's Income or part of it into a one-off grant. Whether the use of a Citizen's Income for this purpose should be prohibited is an interesting question. [9]

When we met Stuart White in chapter 12 he was wondering whether a Citizen's Income might compromise the reciprocity essential to notions of citizenship. Here we find him more favourable towards a once in a lifetime universal grant. This is because the grant would provide an element of personal freedom and a recognition of everyone's stake in the commons, but it would not compromise the necessity to contribute to society in order to earn a subsistence income. [10] On the 'regular payment' side of the argument: everyone experiences some degree of 'bad luck', that is, circumstances or unfortunate choices that result in a loss of opportunities. Such situations occur throughout our lives. A one-off grant would address the situation only once, whereas a regular Citizen's Income would constantly offer opportunities for new choices. [11]

Universal in-kind benefits

People have different preferences, and some people would find universal services preferable to universal benefits: [12] for instance, they would prefer universal free school meals to a Citizen's Income that would help them to pay for school meals.

The National Health Service is free at the point of use for every citizen of the UK, and often in practice for those with little or no citizenship status. It therefore functions in many ways as Child Benefit functions and as a Citizen's Income would function. It provides a bedrock of security on which people can build with confidence: so, for instance, moving from one employer to another in the UK is far less fraught than in the United States, because in the USA an employer might provide someone's only access to healthcare, whereas in the UK the employer might provide access to private subsidiary healthcare but not to essential healthcare. No citizen is in a position to participate in a free market in healthcare because we do not have the information that those providing the service have, so to provide a universal cash benefit and then expect people to pay for their healthcare out of it would not provide universal healthcare. 'Market failure' would be the result. This suggests that where market failure is possible, universal in-kind benefits are the right approach, and that where there is no market failure – that is, where the citizen has all of the information they need in order to make informed choices – universal cash benefits are the right approach. The NHS and education should remain public services free at the point of use. Supermarkets should remain in the private sector.

Gideon Calder suggests that free public transport would be a policy with plenty of features similar to a Citizen's Income [13] and that it would therefore behave similarly. Whilst public transport suffers from local monopolies, it does not suffer from the same market failure as healthcare does, so it looks like more of a candidate for government regulation than for public provision. Making bus travel in London free for young people has had detrimental effects on their exercise levels, suggesting that free public transport for everyone would have a similar effect. Yes, free public transport would serve the cause of equality, but probably not the cause of efficiency. Attempting to serve both causes together requires rather more complex measures such as fares systems that charge more for peak hours and less for other times, thus encouraging those who do not need to travel in peak hours to travel when transport systems are quieter. This reduces overcrowding and also reduces the number of buses required. There are clearly arguments for both a free service and for charging for the service, which suggests that a subsidized service is what is required.

The argument for free public transport is far from conclusive. The argument for a Citizen's Income is as conclusive as we can get this side of a large scale pilot project. The NHS being free at the point of use is a proven public good. Different services need different solutions.

A hybrid scheme: The Institute for Fiscal Studies, 1984 [14]

In 1984, Andrew Dilnot and his colleagues at the Institute for Fiscal Studies expressed a significant ambition: 'We argue that an explicit abandonment of the national insurance concept and the pursuit of a single, properly integrated tax and benefit systems provide the only promising direction of reform.' [15] They recommended an extension of the Heath Government's Tax Credits scheme to include 'benefit credits' for housing costs, disability, sickness, and other contingencies, to be calculated on the basis of an annual tax return, and to be withdrawn through the tax system as earnings rose, as was intended for the 1972 Tax Credits scheme. Benefits for children were to be treated in the same way – i.e., universal Child Benefit would cease – so benefits for children would have been withdrawn through the tax system along with other benefits credits. [16] Similarly, the basic state pension would be replaced by a credit for pensioners, and this too would have been withdrawn through the tax system. [17] For couples, Dilnot and his colleagues envisaged a household unit, with benefit credit receipts and withdrawals split between spouses. [18]

The Tax Credits scheme on which the Institute's ideas were based would have suffered from administrative complexity. There would have been little problem if people's relationships with the labour market had been as stable as they were for most workers during the 1950s, but the labour market is now highly fluid, many people experience numerous labour market transitions, and for many younger adults, and an increasing number of older people, barely controlled chaos is the only way to describe their working and earning patterns. No Tax Credits scheme could cope with such fluidity, and the Institute's scheme, with its additional contingent benefits, would have coped with it even less well. Personal circumstances drawn from an annual tax return would for many people have been entirely out of date by the end of the year, requiring at least the levels of recalculation, underpayment and overpayment suffered by today's 'Tax Credits'. Added to the stable labour market presupposition, Dilnot and his colleagues were presupposing a household unit that presumably they hoped would remain stable for the vast majority of people. This was far from being a true reflection of the situation for many families and in many communities in 1984, and it is a very long way from being a realistic presupposition now.

The Institute for Fiscal Studies' scheme was a brave attempt to pursue the logic of the Tax Credits idea and to use the Tax Credits mechanism to create an integrated tax and benefits structure. It is unfortunate that the presuppositions underlying the scheme were precisely those that were not realistic then, have become even more unrealistic since, and look as if they will soon be completely untenable.

Their aim was the right one: 'a single, properly integrated tax and benefit system.' [19] In an increasingly complex world, the only way to do this without entanglement in increasing complexities would be through a universal benefit.

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[1] *Social Justice: Strategies for National Renewal*, the report of the Commission on Social Justice, Vintage, London, 1994, p.227

[2] Michael Ward, at a seminar 'What was Beatrice Webb thinking and why should we still care?' at the London School of Ecoomics, 12/10/11. Contributors to the seminar recognised that even though contributory benefits are not genuine insurance benefits, and there are now conditions attached to their receipt, the idea of paying a contribution and being paid a benefit if we need it is still popular.

[3] Paul Dornan, *Delivering Benefits in Old Age: The Take up of the Minimum Income Guarantee*, Ashgate, Aldershot, 2006, p.197

[4] Tony Salter, Andrew Bryans, Colin Redman and Martin Hewitt, *100 Years of State Pension: Learning from the Past*, Institute of Actuaries, London, 2009, pp.178, 183

[5] Vladimir Rys, *Reinventing Social Security Worldwide*, Policy Press, Bristol, 2010, p.116

[6] Michael Schneider, *The Distribution of Wealth*, Edward Elgar, London, 2004

[7] Hermione Parker, 'Terminology', *BIRG Bulletin*, no.12, February 1991, pp.6-9; James Meade, *Agathotopia: The Economics of Partnership*, David Hume Paper no.16, Aberdeen University Press, Aberdeen, 1989

[8] Stuart White, 'Basic income versus basic capital: can we resolve the disagreement?' *Policy and Politics*, vol. 39, no. 1, January 2011, Special issue: Basic Income, Policy Press, Bristol, 2011, pp.67-82; Tony Fitzpatrick, 'Social paternalism and basic income', *Policy and Politics*, vol. 39, no. 1, January 2011, Special issue: Basic Income, Policy Press, Bristol, 2011, pp.83-100

[9] Tony Fitzpatrick, 'Streams, Grants and Pools: Stakeholding, Asset-Based Welfare and Convertibility', *Basic Income Studies*, vol.2, no.1, 2007, pp.1-21

[10] Stuart White, 'Freedom, Reciprocity, and the Citizen's Stake', in Keith Dowding, Jurgen De Wispelaere and Stuart White (eds), *The Ethics of Stakeholding*, Palgrave Macmillan, Basingstoke, 2003, pp.79-93. For more on this debate, see Philippe van Parijs, *Real Freedom for All: What (if Anything) Can Justify Capitalism?* Clarendon Press, Oxford, 1995, p.45. cf. Will Paxton and Stuart White with Dominic Maxwell (eds.), *The Citizen's Stake: Exploring the future of universal asset policies*, Policy Press, Bristol, 2006

[11] Simon Wigley, 'Basic Income and the Problem of Cumulative Misfortune', *Basic Income Studies*, vol.1, no.2, 2006, pp.1-14

[12] Joseph Heath and Vida Panitch, 'Why Cash Violates Neutrality', *Basic Income Studies*, vol.5, no.1, 2010, pp.1-26

[13] Gideon Calder, 'Mobility, Inclusion and the Green Case for Basic Income', *Basic Income Studies*, vol.4, no.2, 2009, pp.1-10

[14] Hermione Parker, *Instead of the Dole: An enquiry into integration of the tax and benefit systems*, Routledge, London, 1989, pp.159-223 discusses two other hybrid proposals: Philip Vince's Liberal tax credit scheme, and Patrick Minford's proposal of a conditional Negative Income Tax.

[15] A.W. Dilnot, J.A. Kay, and C.N. Morris, *The Reform of Social Security*, Clarendon Press, Oxford, 1984, p.2.

[16] A.W. Dilnot, J.A. Kay, and C.N. Morris, *The Reform of Social Security*, Clarendon Press, Oxford, 1984, pp.5, 81.

[17] A.W. Dilnot, J.A. Kay, and C.N. Morris, *The Reform of Social Security*, Clarendon Press, Oxford, 1984, p.123.

[18] A.W. Dilnot, J.A. Kay, and C.N. Morris, *The Reform of Social Security*, Clarendon Press, Oxford, 1984, p.110.

[19] A.W. Dilnot, J.A. Kay, and C.N. Morris, *The Reform of Social Security*, Clarendon Press, Oxford, 1984, p.2.