BIRG BULLETIN 12

BASIC INCOME RESEARCH GROUP BULLETIN NO 12 £3.00 FEBRUARY 1991

BASIC INCOME DEFINED

A Basic Income scheme would phase out as many reliefs and allowances against personal income tax, and as many existing state-financed cash benefits as practicable; and would replace them with a Basic Income (BI) paid automatically to each and every man, woman and child. Basic Income would enhance individual freedom, and would help to prevent poverty, end the poverty and unemployment traps, reduce unemployment and create a less divided society.

BASIC INCOME RESEARCH GROUP (BIRG)

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

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Editorial

With the support of the Rowntree Charitable Trust, BIRG is about to embark on a three-year program, the emphasis of which will be on dissemination. By the end of 1993 we plan to make Citizens' Income (CI) and Basic Income (BI) as much a part of the English language — and of political debate — as the social security benefits they would replace. During 1991 we shall produce a short video explaining BI, comparing it with the existing tax and benefit systems and showing why change is necessary. The video will be available on request, for use at public and private meetings throughout the UK.

We shall also be testing public opinion. For instance, in conjunction with Age Concern, we shall be asking pensioner and other groups how much importance *they* attach to the contributory principle. Given the choice, what sort of pension would *they* prefer the state to provide? For example, should entitlement to it be based on previous labour-market participation (as now), or on length of residence in the UK (as proposed by BIRG)?

In December of last year an important contribution to the BI debate was published by Samuel Brittan (Assistant Editor of the Financial Times) and Steven Webb (Senior Research Officer at the Institute for Fiscal Studies). *Beyond the Welfare State: An Examination of Basic Incomes in a Market Economy* reached us too late to review, but we are grateful to Steven Webb for his account in this Bulletin of the illustrative approach they adopted. In an effort to reduce costs, they took the nuclear family instead of the individual as the assessment unit. So their scheme is what BIRG would call a modified BI.

Using the current generation of tax/benefit models (which do not take account of behavioural change) a family-based scheme looks less expensive than the individually-based schemes costed at the London School of Economics.[1] Yet a scheme which required the Inland Revenue to track the marital (and non-marital) relationships of every man and woman in the country would be fantastically difficult to administer. Like the existing cohabitation rule (which BIRG would like to see removed) it would meet stiff resistance. For its lower cost is the result of a marriage penalty of £16 a week for couples without children, and £20 for couples with children. Unmarried adults would get £37 each, reduceable on marriage or cohabitation to £29 each (or £37 for the man and £21 for the woman).

In due course BIRG hopes to take up Steven Webb's challenge, by analysing both approaches on a comparable basis. There is little doubt that the Brittan/Webb approach would produce larger BIs than the BIRG approach. On the other hand, it may be that most people would prefer smaller BIs that preserved their privacy to larger ones that were subject to bureaucratic intrustion.

The BI debate has reached a stage where careful use of terminology is becoming increasingly necessary, especially at the international level. In their December 1989 Green Paper,[3] Britain's Liberal Democrats used the term *Citizen's Income*, and at last year's conference in Florence the Basic Income European Network (BIEN) used the term *Citizenship Income*. But they were not necessarily talking about the same things. That is why your Editor has tried to clarify the confusion by including a brief analysis of the more commonly used technical terms in this Bulletin! Using her proposed terminology on page 7, Citizen's Income becomes *any form of state benefit for which the main basis of entitlement is citizenship or legal residence*. Basic Income becomes a CI variant *which takes the individual as the unit of assessment and is funded by an integrated, hypothecated income tax*.

BI has advantages and disadvantages. It would make the income redistribution system more explicit, which most people regard as an advantage, but it presupposes a super-efficient system of income tax collection, which is a major limitation. Countries unable to collect the necessary revenue through income tax would have to use other sources of finance, in which case the system would be a CI but not a BI system. The incidence of tax and the redistributive effects would be much harder to calculate, and almost certainly very different.

In the coming three years, BIRG will concentrate on the introduction of a partial BI in the UK. At European Community level, we will foster the idea of a CI (without a work test) *as a privilege of European citizenship*. In the words of the late Sir Brandon Rhys Williams:

> A Basic Income Guarantee that reached out to all the citizens of the Community would ... give the ideal of Union a real personal significance, because it would become a commitment, and a privilege, expressible in tangible form.[3]

This is a far cry from the existing situation — and the EC Social Charter. A European CI, payable irrespective of labour market or marital status, could fit well with the single market. For it would boost demand in areas of under-employment and unemployment, thereby reducing the risk of a two — or even three — tier Europe. It would also ease the way towards reform (or replacement) of the Common Agricultural Policy, by protecting the living standards of low-income citizens (including farmers) without interfering with prices. With CIs on the agenda, even the GATT talks might have turned out differently!

The importance of distinguishing between the different varieties of CI comes out clearly from Pat O'Brien's account of the Alaska Permanent Fund Dividend program. Since 1982, every Alaskan citizen has been a shareholder in *Alaska Inc*, with effects that look good for the economy as well as the individuals. Imagine the consequences for Scotland, if every Scot received an equal share of the profits from North Sea oil. In Alaska one result has been increased employment. In Scotland the same could happen. BIRG would appreciate feed back from Scottish readers on this issue.

The Alaska Dividend Program was introduced to further capitalism, not to weaken it. Ken Mayhew, former economic director of Britain's National Economic Development Office (NEDO), writes in this Bulletin about *BI as a lever for economic efficiency*. It used to be thought that the existing social security system would promote economic efficiency, but it did not work out that way. If it can be shown that BI would improve economic efficiency *as well as* social justice, then we really are going places.

Ken Mayhew's article stems partly from the deliberations of BIRG's Labour-Market study group. A report of these deliberations will be published shortly, as the first of a new series of BIRG Discussion Papers. Its main conclusion is that Basic Income needs to be part of a wider package, which should also include training, child-care provision and measures to combat discrimination.

Another forthcoming publication to which we shall return in the next edition of this Bulletin is a report by Hermione Parker and Holly Sutherland, comparing the effects of child tax reliefs, increased child benefit and BI as instruments of family policy.[4] Contrary to those who describe child benefit as an 'indiscriminate' benefit, this study shows that both child benefit and BI are extremely effective 'targeting' mechanisms — provided they are financed through income tax. BI is the most redistributive from 'rich' to 'poor' of all the options in the study. It also does the most to improve work incentives at the bottom of the earnings distribution.

Finally, a note for your diaries. BIRG's 1991 annual conference will be at Toynbee Hall, London on Friday 12th July. This date has been chosen to coincide with the 'TOES' 1991 conference.[5] We thought you might like to combine the two.

Notes and references

1. For instance: A.B. Atkinson and H. Sutherland, *Analysis of a Partial Basic Income*, BIRG Bulletin No 8, Autumn 1988; B Rhys Williams, ed. H. Parker *Stepping Stones to Independence*, Aberdeen University Press, 1989; H. Parker, *Instead of the Dole*, Routledge 1989, chapter 20.

2. *Common Benefit, Federal Green Paper No 11*, Liberal Democrats, December 1989. See BIRG Bulletin No 11, July 1990.

3. B Rhys Williams, op cit, page 53

4. H. Parker and H. Sutherland, *Child Tax Allowances? A Comparative Analysis of Child Benefit, Child Tax Reliefs and Basic Income as Instruments of Family Policy*, STICERD Occasional Paper No. 16, London School of Economics, Spring 1991 forthcoming.

5. *The Other Economic Summit (TOES)* is organised by the New Economics Foundation to coincide with the Group of Seven Economic Summit. This year it will be in London on 15th-16th July, with fringe meetings before or after. For further details please contact Michael Palmer, telephone 071-377 5696.

The Alaska Permanent Fund and Dividend Distribution Program

J. Patrick O'Brien and Dennis O. Olson

The State of Alaska is sparsely populated, with an estimated population in 1986 of 534,000. In Bulletin No. 11 we reported briefly on Alaska's version of a social dividend scheme (See ***At Home and Abroad****). Afterwards we went to source for the following account of a remarkable experiment, which treats all Alaskans as stockholders in* ***Alaska Inc.*** *— distributing annual dividends to every resident regardless of need — in order to remind them that it is their money the state spends ... John Major please take note.*

Alaska is a state rich in resources. In a unique experiment its citizens have chosen to distribute the bounties of this resource wealth to themselves and future generation of Alaskans. Citizenship alone entitles each individual to a share of Alaska's wealth, through the Alaska Permanent Fund Dividend program (APFD).[1]

Since 1977, the State of Alaska has been receiving royalty income from oil produced on state-owned land at Prudhoe Bay and adjacent oil reserves. About 20% of these funds have been saved in a state savings account called the Alaska Permanent Fund (APF). Although several other states and Canadian provinces have established trust funds to preserve portions of their non-renewable oil or mineral wealth for future generations, only Alaska has chosen to distribute any significant portion of these funds directly to the populace.

The origins of the Permanent Fund and the dividend program can be traced to the unique economic history of the state. Recognising the traditional boom-bust nature of its economy, most residents felt that some portion of its oil revenue should be saved for future years. When the Alaskan legislature established the Permanent Fund in 1976, it stipulated that the principal of the fund should accumulate and be used for "income-producing investments." But no such restrictions were imposed upon the use of income earned by the Fund. Thus, in 1979, Governor Jay Hammond's proposal to distribute some of the interest received considerable public support. Then, as now, the dividend program was viewed as a means of providing residents with some benefits from increased oil revenues without simply providing them with more government spending.

While popular, the dividend program has been controversial since its inception. At the heart of the debate are underlying questions concerning the optimal size of state government and its proper role in managing public wealth. In this paper we discuss the economic and political rationales for the existence of the Permanent Fund and the dividend program. We compare the dividend distribution program with other Alaskan state transfer programs and then discuss the impact of the dividend distribution program on the state's economy.

1. HISTORICAL PERSPECTIVE

In November 1976 the citizens of the State of Alaska approved an amendment to the Alaska constitution whereby the Alaska Permanent fund was established.[1]

> At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.[2]

In passing the enabling act for the constitutional amendment, it was the intent of the legislature that the principal of the Permanent fund should accumulate to a level sufficient to assist in the diversification of Alaska's economy, and to ensure that future generations of Alaskans will receive benefits from the development of the state's non-renewable resources. This idea reflected the view that petroleum reserves, or any mineral deposits located on state lands, are jointly owned by all state residents, including future generations of Alaskans.

As an alternative to saving royalty income in a permanent fund, the populace could have mandated that royalty income be distributed directly to the populace, on receipt. Establishment of the Permanent Fund, however, suggests that many Alaskans believed the private allocation of royalty revenue would not be socially optimal in the long term; that the current generation would save at a lower than socially optimal rate. Furthermore, it was recognised that current and future residents of Alaska are geographically mobile. Their personal time horizons may correspond only to their expected length of residence in Alaska. Immediate distribution of the entire Permanent Fund would thus mean a loss of some benefits to future Alaskan residents. Additionally, in that the primary source of revenues to support state expenditures are receipts associated with the development of the state's non-renewable resources, especially the development of the North Slope petroleum reserves, and in that it was anticipated that such development would slow down in the 1990s, the State sought in the Permanent Fund principal a permanent tax base, which could be used to smooth out the future flow of government spending.

Another important consideration was to constrain state government spending. In 1969 the state auctioned off the drilling rights on tracts of state-owned land at Prudhoe Bay, which is located on Alaska's North Slope. The Prudhoe Bay lease sale generated $923 million in revenue. This was a huge windfall for the state, which at that time had an annual budget of only $112 million.

By 1977 the state had spent most of this money. Whether correct or not, the general public sensed that the state's politicians had squandered this first oil windfall. To prevent such a recurrence, the populace strongly supported the idea of placing a portion of the state's oil revenues beyond the reach of day-to-day government spending

The Permanent Fund

In addition to saving a portion of the state's oil wealth, the operating goals of the Permanent Fund are, first, to protect those savings from a loss of value, and second to invest the principal of the Fund in perpetuity to produce income. The first goal takes precedence and as such the Permanent Fund has followed a fairly conservative investment strategy. Initially the principal was invested only in select high-grade capital and money market instruments, i.e. obligations of the United States government, CDs of federally insured commercial banks, or corporate investment-grade securities. More recently, however, the Fund has begun to be invested in real estate and stocks. As of 30 June 1990, for instance, about 70% of the Fund was invested in bonds and short-term securities, 21% in stocks, 8% in real estate, and 1% in cash, Alaska residential morgages and certificates of deposit of Alaska financial institutions.

By the end of fiscal year 1990, the APF had accumulated assets totalling $11,200 million. Of this total, approximately $3,800 million represents constitutionally dedicated revenues arising from the mandate to save 25% of royalty income and bonuses, $4,000 million has come from special legislative appropriations, and the remainder is from earnings on investments in previous years. The Fund contains about 20% of state petroleum revenues received since 1977.

Net earnings of the Fund are also fairly substantial, totalling some $6,900 million since 1977. About $1,000 million was earned in 1986, $1,100 million in 1987, $800 million in 1988, and $900 million in both 1989 and 1990. From these funds "an amount sufficient to offset the effect of inflation on principal of the APF ... " is ploughed back into the Fund's principal for reinvestment.[3] Over the past eight years, inflation-proofing has amounted to approximately $2,100 million. The remainder of net income is divided between the dividend account to fund the dividend program and an earnings reserve account, which represents undistributed income. For 1987 and therefter, dividend payments are equal to 10.5% of the net income earned by the Fund over the most recent five years. Remaining funds are placed in the earnings reserve account, to be used for future dividends, for inflation proofing, or for other uses as specified by the legislature.

Dividend distribution program

The origins of the dividend program can be traced back to at least the 'State of the State' speech given by Governor Jay Hammond in 1976. He used the term *Alaska Inc* to refer to the idea that Alaskans be treated as stockholders in a corporation (the State of Alaska) that was extracting oil at Prudhoe Bay. A type of tangible benefit or dividend could then be paid annually to these shareholders. Such a payment would remind them that the state was spending their money and cause them to be more aware of state expenditures and revenues.

The initial dividend program, proposed for 1980, was to provide eligible residents with a $50 dividend for each full year of residence since statehood in 1959. This method of rewarding long-time residents was designed to help reduce the constant turnover in the state's population, and preserve 'Alaskan' cultural characteristics threatened by the oil boom. However, the legality of the program was immediately challenged, and in 1982 the U.S. Supreme Court declared the state law was unconstitutional since it discriminated against new residents. The legislature then revised the program so that all eligible residents would be treated equally and receive dividend cheques of a fixed amount. The initial distribution of dividend payments was set at $1,000 per person in 1982.

Technically, and according to current statutes, only that portion of net income transferred to state general funds (the dividend account) is readily available for dividend distribution. Funds in the earnings reserve account, however, may be appropriated for dividends or other uses through an act of the legislature. Given the budgetary problems faced by the state, due to falling oil revenues during the period 1985 through 1989, the question of whether dividends and interest income should be distributed, saved, or transferred to the general fund was an important policy issue. With the recent rise in oil revenues associated with the Persian Gulf crisis, however, this debate will undoubtedly be put on hold.

2. ALASKA TRANSFER PAYMENTS

Permanent Fund Dividend payments count as a form of transfer payment, and are only one of many transfer payments provided by the State of Alaska to its citizens. APFD payments represent, however, the largest single category of direct transfer payments to individuals, and have the broadest reach of any of Alaska's transfer payment programs. Transfer payments to individuals in Alaska are categorised into two major groups:

- Payments made without regard to the recipients' incomes
- Payments based on need

(1) Universal payments:

There are currently three major programs in which payments are made to individuals without regard to income:

- The Permanent Fund Dividend program
- The Longevity Bonus program
- The Power Cost Equalization program

Permanent Fund Dividend program.

In 1989, dividend payments totalled approximately $460 million, and were distributed to some 500,000 eligible Alaska residents. Eligibility for dividend payments in 1989 required only that an individual be a resident of the state and file an application.[4]

Since the program started in 1982, each Alaska resident has received the following per capita distributions:

Alaska Permanent Fund Dividend Program

Year	*Per capita annual amounts $*
1982	1,000.00
1983	386.15
1984	331.29
1985	404.00
1986	556.26
1987	708.19
1988	826.93
1989	873.16
1990	952.63

The Longevity Bonus program

This is the second largest transfer payment program in this category, with total disbursements in 1989 of approximately \$55 million. Through this program all Alaskans over the age of 65, who have lived in the state for at least two years, receive \$250 per month. The program reached approximately 3% of the population.

The Power Cost Equalisation Program

This program provides benefits based on location. Initiated in 1980, the objective is to reduce the electricity bills of rural residents. Disbursements in 1989 amounted to about \$19 million. Payments are made to rural utilities, which then reduce customers' electricity bills. The program affected some 60,000 customers in 1989.

Payments based on need.

Transfer payments based on need amounted to some \$200 million in 1989, and were made through Aid to Families with Dependent Children (AFDC), the Adult Public Assistance program, and Medicaid.

3. ECONOMIC IMPACTS OF THE DIVIDEND DISTRIBUTION PROGRAM

Not only has the dividend distribution program contributed directly to total personal income received by residents, it has also affected the level of economic activity. By increasing total personal income, it has resulted in a rise in residents' personal consumption expenditures; it has indirectly affected employment; and it appears to have had a subsidiary effect as an anti-recessionary policy program.

Expenditure on dividend payments since 1982 has ranged from a low of \$167 million to a high of \$487 million per year. Payments as a percentage of total personal income have ranged from 1.86% to 5.44% — the latter figure being associated with the abnormally large payments made in 1982. Dividend payments over the existing life of the program have averaged 3.14% of total personal income in the state (2.68% excluding the 1982 payment).

The program has also resulted in increased expenditure on personal consumption, and increased employment. As an indication of the employment impact of the dividend distribution program, it has been estimated that for every \$1 million distributed 13 Alaska jobs (primarily in the services and trade sectors) are created.[5] With dividend distributions totalling \$487 million, this translates into approximately 6,300 new jobs for Alaskans, or about 3% of total employment in Alaska.

In 1985 the Alaska economy experienced a substantial boom, followed by a fairly severe recession. Both the expansion and the contraction were closely linked to the international price of crude oil. In that dividend payments are not tied to the current state of economic activity, they have tended to exacerbate the expansionary phase of the business cycle, and mitigate the contractionary phase. Alaska personal income has tended to grow more rapidly during the expansionary phase than in the absence of dividend payments. Dividend payments were approximately 2% of total personal income during the years in which personal income was rising, compared with 4.2% during those years in which personal income contracted.

The counter-recessionary nature of dividend payments is perhaps (at best) unintentional, since each year's dividend distribution has been determined using a formula developed in 1983, which sets total dividends equal to 10.5% of the accumulated interest earned by the permanent fund over the previous five years. Presumably this formula was based upon rational expectations, using the information available in 1983. It is, however, a backwards-looking formula that fails to incorporate new information about future incomes, as it becomes available in later years. Regardless of whether Alaska is intentionally engaging in stabilisation policy, government officials are aware of this potential role of the dividend program.

On current projections, it is anticipated that annual dividend distributions will rise to \$594 million by 1995 (in nominal dollars) with per capita payments of \$997. By the year 2000 annual distributions are projected to approach \$830 million, with per capita distributions of \$1,275.[6]

4. A UNIQUE EXPERIMENT

The Alaska Permanent fund is a unique experiment in the redistribution of wealth to future generations of Alaskans. By setting aside a portion of state revenues received from the exploitation of resources today in a constitutionally inviolate trust fund, the current generation of Alaskans has ensured that future generations will benefit from Alaska's mineral and petroleum wealth.

Through the dividend distribution program, current Alaskans benefit from the exploitation of resources directly by an increse in personal income, and indirectly through the higher employment brought about by the infusion of dividend payments. Additionally, the dividend distribution program acts as an anti-recessionary policy tool, whereby the boom-bust cycles associated with resource development which have historically plagued Alaskans are somewhat mitigated.

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Notes and References

1. An amendment to the Alaska Constitution was necessary to establish the Alaska Permanent Fund, since the constitution specifically forbids the dedication of proceeds from taxes or licences for any special purpose other than joint federal/state participation programs.
2. Amendment to Alaska constitution, Article IX, Section 15. Originally severance tax revenues would have been included in the Permanent Fund, but that provision was deleted in the state senate.
3. Alaska Statutes 37.13.010-145 (October 1983) specify how the permanent fund is to be operated. Section 37.13.145 inflation-proofs the principal.
4. The residency requirement for receipt of dividend payments in 1990 was increased by the legislature to two years. A recent challenge in the courts, however, has resulted in the residency requirement being set at one year.
5. Goldsmith, Oliver Scott, and Wanamaker, Jeff, *The Economic Impact of the Permanent Fund Dividend.* Paper prepared for the **Alaska Permanent Fund Corporation** by the Institute for Social and Economic Research, University of Alaska Anchorage.
6. These projections have been made by the Alaska Department of Revenue and are reported in the Monthly Financial Report of the Alaska Permanent Fund Corporation. In formulating these projections it was assumed that the nominal rate of return on the principal of the fund would be 9% in fiscal year 1993, and thereafter. Inflation was assummed to be 6%.

Terminology

Hermione Parker

BIEN's third international conference on Basic Income showed once again the confusion that arises when the same technical terms are used to mean different things. Given the diversity and complexity of social security institutions and social security law in Europe, it is not surprising that rather few technical terms are synonymous. Terminological difficulties are compounded by those of language. ***Child Benefit*** *translates into French as* ***allocation familiale*** *and into German as* ***Kindergeld*** *giving appearances of synonymity where none exist. If BIEN wants to progress, one of its first priorities should be to agree a format for definitions (and translations) of at least the main concepts involved.*

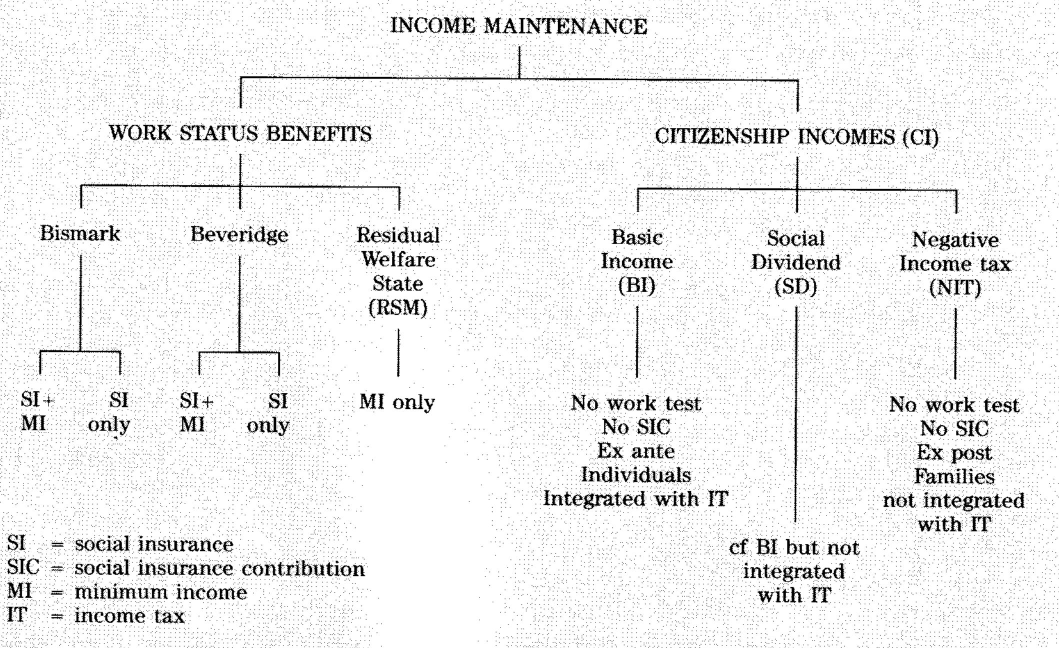
During the past few years it has become increasingly apparent that the term Basic Income (BI) is being used in English texts to describe tax and benefit proposals that are fundamentally dissimilar. Virtually any scheme that takes citizenship as the main basis of entitlement is being given the BI label (or is translated into English as a BI) — including proposals that subject recipients to a work test (André Gorz[1]), take the family instead of the individual as the assessment unit (Samuel Brittan and Steven Webb[2]), rely for finance on ecological taxes (James Robertson[3]), property taxes (Morley-Fletcher[4]) or topsy-turvy nationalisation (James Meade[5]). The resulting confusion starts by being terminological, but quickly becomes linguistic as well. Here I shall endeavour to make the case for much clearer use of terminology in each vernacular, so that translators and interpreters can move between languages with greater confidence that the terms they use mean what they appear to mean.

It goes without saying that there are good reasons for most of the 'BI' variants. My argument is not for or against any of them — it is about distinguishing between them. Inclusion of a work test would doubtless make 'BI' more acceptable to upholders of the Puritan work ethic, and to authoritarians generally. Unfortunately a work-tested BI is a contradiction in terms. BI is about equal treatment, autonomy and the minimum of bureaucracy, whereas work tests involve discrimination, compulsion and red tape. Taking families instead of individuals as the assessment unit is said to render 'BI' less expensive — especially as measured by computer models that take no account of behavioural change — but a BI based on sex and marital status is a further contradiction in terms. It involves unequal treatment of spouses and heterosexual partners by comparison with single people and homosexual partners, and necessitates retention of the much hated cohabitation rule.

In the UK, it is accepted that a full BI (enough to live on) would require income tax rates of at least 70% to finance it — hence the quest for other sources of finance. Reliance on income tax also presupposes the ability to collect it, which many countries do not have. Therefore the potential for BI is limited, which leads some of its advocates to examine other sources of finance. Yet a BI system funded by its own hypothecated income tax and kept separate from the rest of government's accounts (cf Britain's National Insurance Fund) is not at all the same as a 'BI' system funded by whatever other forms of taxation may come to hand.

With authentic BI the income redistribution process becomes explicit instead of opaque. The BIs are withdrawn from 'richer' citizens through the income tax. Divide each citizen's BI by the rate of income tax and multily by 100, and you come up with the income break-even levels at which each citizen becomes a *net* taxpayer (i.e. the income levels at which tax paid equals BI received). With wealth, ecology or turnover taxes, this is not possible — the system would remain opaque and the redistributional effects could be perverse. In Czechoslovakia, for instance, where *quasi* BI's of 140 crowns replaced price subsidies in 1990, it is argued that people on high incomes have gained whereas those at the bottom have lost.[6]

FIGURE 1: FAMILY TREE



Family tree

My family tree is a first attempt at classification. It is headed *Income Maintenance*, although the term *Income Security* (defined as taking into account tax as well as benefits) may be more appropriate. On the left we find the traditional benefit systems (Bismarck, Beveridge, and Residual Welfare State or Poor Law), all of them linked to work in the regular labour market. Work is defined as paid work (or self-employment). Unpaid work (in homes and communities) is disregarded, and therefore downgraded. On the right we find the new generation of systems, all of them based on legal residence. These are the *Citizens' Incomes* of tomorrow. The old work ethic is replaced by a new ethic, based on the premise that paid work is by no means the only socially worthwhile activity. Every citizen acquires the unconditional right to a minimum of subsistence — just as every citizen since the late nineteenth century has had the right to education, and since the mid-twentieth century to health care.

BENEFITS BASED ON WORK STATUS

Bismarck

Social insurance in the Bismarck tradition pays benefits that are fixed percentages of former earnings — which is fine for those who have earned regularly and well, but not at all fine for the lower paid, nor for those who have earned irregularly, nor for single-wage couples whose marriages end on the rocks. That is why a steady stream of countries with Bismarck-style social insurance systems have added (or are in the process of adding) new layers of means-tested social assistance to their existing provisions (see minimum income or MI in the diagram). Luxembourg's *Revenu Minimum Guaranti* (RMG), and France's *Revenu Minimum d'Insertion* (RMI) are recent examples.

Beveridge

Social insurance in the Beveridge tradition is flat rate with additions based family composition. Benefit rates are low — if they were not, the gap between low pay and benefit would not be wide enough to preserve work incentives. To counter the accusation of benefit rates that are inadequate, countries following the Beveridge tradition have added further layers of earnings-related provision (e.g. Britain's state earnings-related pension scheme/SERPS introduced in 1978) as well as a layer of social assistance (MI).

Residual welfare state or Poor Law

As a result of crisis in the welfare state and the neo-liberalism of the 1980s, many governments have cut back on benefit entitlements. Mrs Thatcher's government took a series of tax and benefit measures designed to replace social insurance benefits (in the long term) by a combination of private provision (for the majority) and means-tested social assistance (MI) for the minority. Private provision is encouraged by tax reliefs. Public provision is allowed to fade away by indexing benefits to prices instead of earnings — or not at all. Unless this policy is reversed Britain's basic old age pension will in due course become as worthless as the former death grant.

CITIZENSHIP INCOMES

Notwithstanding their merits (which are indisputable) benefit systems based on labour-market participation have serious limitations — hence the emergence of Europe's New Poor. Social insurance cannot help these unfortunates, because social insurance of its nature is a system of exclusion. Moreover those most at risk of exclusion are those least able to fend for themselves: people with disabilities, women (especially lone mothers),

FIGURE 2: CITIZENS' INCOMES, DEFININTION MATRIX

VARIABLE	*CITIZENS' INCOMES*			*WORK-RELATED BENEFITS*		
	Basic income	*Social dividend*	*Negative income tax*	*Social insurance*	*Minimum income*	*Residual welfare state*
Basis of entitlement						
Legal residence	**Yes**	**Yes**	**Yes**	Yes	Yes	Yes
Contribution record	**No**	**No**	**No**	Yes	No	No
Assessed need	**No**	**No**	**Yes**	No	Yes	Yes
Work test	**No**	**No**	**No**	Yes	Yes	Yes
Earnings rules	**No**	**No**	**No**	Yes*	Yes	Yes
Assessment unit						
Individual	**Yes**	**Yes**	**No**	Yes	No	No
Nuclear family	**No**	**No**	**Yes**	No	Yes	Yes
Extended family	**No**	**No**	**No**	No	Yes?	Yes?
Household	**No**	**No**	**Yes**	No	Yes?	Yes?
Cohabitation rule	**No**	**No**	**Yes**	No	Yes	Yes
Financing methods						
Social insurance contributions	**No**	**No**	**No**	Yes	No	No
Integrated income tax	**Yes**	**No**	**No**	No	No	No
Income tax (not integrated)	**No**	**?**	**Yes**	No	Yes	Yes
Savings on existing benefits	**Yes**	**?**	**Yes**	No	No	Yes
Savings on income tax reliefs	**Yes**	**?**	**No**	No	No	No
'Green' taxes	**No**	**?**	**?**	No	?	?
Wealth taxes	**No**	**?**	**?**	No	Yes	No
Share of profits	**No**	**Yes**	**No**	No	No	No
Delivery						
Automatic (ex ante)	Yes	Yes	No	No*	No	No
Needs-tested (ex post)	No	No	Yes	No	Yes	Yes

*Except in the case of UK old age pensions where no earnings rules apply

children and young people, students and trainees. That is why all the new generation of proposals take legal residence instead of work status as the main basis of entitlement. In Figure 2, I emphasise the principle differences between these new systems by showing them in bold.

In BIRG terminology, BI is a self-financing, income-transfer system. At birth every baby gets a BI number, which is his or hers for life. The BIs are credited automatically and withdrawn by charging tax on all (or almost all) other income. National insurance contributions are abolished. The BI amounts are usually age-related, with supplements for disability. The BIs are integrated with the new income tax, by which I mean that *all* administrative regulations (for payment of tax and receipt of BI) are harmonised. Following this definition every authentic BI scheme has four essential properties:

- The basis of entitlement is citizenship (or legal residence)
- The unit of assessment is the individual
- The financing method is an hypothecated, personal income tax
- With the exception of the disability supplements, the whole system is automated

From these properties flow certain automatic side-effects:

- Abolition of the work test
- Abolition of all earnings rules
- Abolition of the cohabitation rule
- Abolition of the means test
- Integration of the BIs with income tax
- Automated delivery of the BIs
- Replacement of existing benefits
- Abolition of income tax allowances and reliefs

It is worth remembering that Chris O'Malley MEP, in the BI scheme he prepared for Ireland's *Fine Gael* party (see *Proposal for a Basic Income in the Republic of Ireland*, BIRG Bulletin No 9, Spring/Summer 1989), proposed that half of the £40 a week BI be subject to a 20% surcharge, on incomes below £100 a week. His scheme nevertheless fits the BI definitions in my matrix, because it would be paid in advance and withdrawn through income tax, moreover it takes the individual (married or single) as the assessment unit. So a non-earning spouse would receive his/her BI in full, regardles of the income or wealth of the other spouse.

Socal dividend (SD).

The attributes of SD are less well defined than BI. On the other hand, we do have the Alaskan Permanent Fund Dividend to go by (see elsewhere in this Bulletin). On most counts SD and BI look similar, it is the funding method that is different. The original concept of social dividend was to distribute a share of the nation's resources (including natural resources and inherited knowledge) between all its citizens. Given the prohibitive cost of a full BI, it seems best to regard SD as complementary to BI, rather than as an alternative. Following Meade in *Agathoptopia*,[5] we can imagine a situation where every citizen has a portfolio of incomes, including BI **and** SD.

In theory there is no reason why the revenue from energy taxes, wealth taxes or Meade's 'topsy turvy nationalisation'[7] should not be used to finance a social dividend. But in practice there could be pressures to use those revenues to finance other programs, for example to clean up the environment (energy taxes), or to improve housing, health and education. Poverty prevention requires more than just boosting income.

Negative income tax.

Time and again it is argued that there are no differences between BI and NIT. If this were true one would expect the same support for each type of scheme, yet in practice support for BI comes from the grass roots (especially women and claimants), whereas support for NIT comes from academics and computer programmers (usually men).

For my NIT definitions in Figure 2, I used Milton Friedman's writings and the North American NIT experiments as my principal guide. The basis of entitlement is legal residence together with assessed basic need. There are nevertheless some 'NIT' proposals which include a work test.[8] This makes a NIT almost inoperable. If part-time work is allowed to qualify, the first hour of work is worth the whole of a week's (or month's) income guarantee (depending on the accounting period), less the withdrawal rate on that hour's wages. But if part-time work is not permitted to qualify for the NIT, there may not be enough job opportunities to go round.[9]

The NIT unit of assessment is the family (it may be one-, two- or even three-generational) living in the same household. Moreover the guaranteed amounts are smaller per head in large families than in small families, in order to take account of the alleged economies of scale. Although the negative tax is designed to be withdrawn through the positive tax, a NIT system is best described as *unified* rather than *integrated*. Unlike BI, where everyone gets a BI and pays tax on all their income, in an ideal NIT system people **either** receive the income guarantee **or** pay tax. Taxpayers and beneficiaries remain clearly identifiable, nor is there any harmonisation of administrative regulations. The accounting periods have to be shorter for beneficiaries than for taxpayers, the assessment unit is wider, and the definition of income is harsher (for instance it includes gifts).

Conclusion

Clearly a great deal more work needs to be done to refine the definitions in this paper, and to find out which systems are best suited to which countries. In my own mind there is little doubt that a partial BI, of the sort recommended by Paddy Ashdown's Liberal Democrats, could be successfully introduced in the UK — with or without a social dividend. In the Netherlands also, some sort of partial BI looks feasible. Elsewhere in the European Community (except perhaps Denmark) BIs are more likely to replace social assistance than social insurance. It may also be that social dividend is more appropriate than BI in the Mediterranean member States. A EURO social dividend, introduced as part of a package to replace the much criticised common Agricultural Policy (CAP), is also worth investigating.

Hermione Parker is a founding member of BIRG, a former Co-Chairman, and the Editor of this Bulletin. Her book ***Instead of the Dole: An Enquiry into Integration of the Tax and Benefit Systems*** *was published by Routledge in 1989, price £12.99.*

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Basic Income as a lever for economic efficiency

Ken Mayhew

BIRG's labour-market study group has recently finished its deliberations, and a report edited by Hermione Parker will be published shortly. Here Ken Mayhew pursues two related themes discussed by the study group, of which he was a valued member. The first theme concerns the ways in which a move towards a BI system might help to improve Britain's training performance. The second theme concerns the ways in which BI might assist those at the margins of economic activity to escape from economic dependency.

It should be stressed that this article is not meant to provide comprehensive arguments for or against BI. That would require a much wider range of issues than the two I am highlighting. It would also have to consider the fine detail of the precise BI scheme intended. My concern is much simpler. It is to show that the introduction of a guaranteed, non-means-tested source of income for each adult could help to stimulate more and better training, and could be important in helping those at the margins of economic activity to help themselves. I therefore ignore the question of whether a Full BI or a Partial BI is introduced. My arguments depend principally on each individual receiving some sort of BI, though the strength of the effects I describe would depend on how much.

1. BRITAIN'S SKILL SHORTAGE

Britain's deficiencies in vocational education and training, by comparison with our main competitors, are well documented. Though our school system produces an elite at least as strong as the elites of other nations, at the lower end British school-leavers lack basic literacy and numeracy. A small proportion move from school into higher education. Of those who go into jobs, few get proper training, and the likelihood of receiving any training at all diminishes with age.

The last decade has seen a new awareness of Britain's appalling training record, and some positive policy initiatives have been taken. But the simple fact is that we are still a long way behind. In general terms it is clear what is needed. We have to ensure that the schools deliver more literate and numerate youngsters and that a greater proportion continue into higher education. For those who go into jobs, more and higher quality training needs to be provided. Nor should the training programmes be confined to younger workers. In an era when products and production processes change ever more frequently and unpredictably, it is essential that men and women be given the opportunity to acquire new skills and refresh old ones, throughout their working lives.

Exhortation, however, is not enough; there are two critical problems that have to be solved:

- Funding
- Employer attitudes

The problem of funding

This problem is perennial. Employers will invest in training only to the extent that they can capture the returns from that investment. Yet if a particular skill is useable by other employers, there is no guarantee that the investing employer will indeed capture all those returns. This is a classic example of what economists call the *externality problem*. Where externalities exist the aggregate of decisions made by individuals will add up to something which is less than optimal for society as a whole. In this case, there will be less investment in training than is socially desirable.

In theory there are a number of ways to correct this. Individual workers could pay, but there are major constraints, including: lack of access to finance; lack of information about investment opportunities; and fear of unfavourable employer reaction, if the employee's actions are seen as giving him or her more opportunity of finding alternative jobs. Employers could form 'clubs' to share the costs and benefits of training. If the club were effective the swings and roundabouts principle would apply — an employer would be less worried about losing a worker he had trained to another firm in the club, on the presumption that he himself might hire workers for whose training another employer had paid. This approach is known as *internalising* the externality. An alternative approach is for government to intervene. There are a myriad specific ways in which it might do so, but in general terms such intervention would involve subsidising good trainers and/or taxing bad ones.

Employer attitudes

It is hard to see why the UK should suffer more from such externalities than other countries, though it may be that we have coped with them less well by not pursuing as fully the corrections mentioned above. But our training inadequacies also relate to a second problem which is one of employer attitudes. Until these are changed, the provision of more cash for training would run the danger of throwing good money after bad.

By employer attitudes I do not mean a failure to appreciate the importance of training in some abstract sense. However much it might have been the case in the past, British management certainly cannot be accused of that today. Indeed it is almost impossible to attend a management conference without hearing pious and increasingly repetitive statements about the need for Britain to improve its training performance. Rather I mean the need to regard training expenditures as an investment just as certainly as expenditure on plant and machinery is an investment.

Very few British employers attempt to evaluate the benefits that result from training expenditure. Even fewer attempt to set costs against benefits. Clearly such calculations are difficult, but the fact that they are rarely even attempted is profoundly revealing.

Perhaps even more revealing is evidence that relatively few firms make training decisions in the context of strategic decisions about which products to produce and which processes to use. In other words, until training is seen more firmly as an investment decision to be taken as an integral part of product and production planning, then higher expenditure on its own — from whatever source — is likely to be wasted.

Is Britain a low quality/low skills economy?

This lack of strategic thinking has led some commentators to argue that Britain is in a low quality/low skills equilibrium. Consider how this might operate. The shortage of trained manpower manifests itself in skill shortages. But this is only the tip of an iceberg. Many employers adjust their hiring standards or their production processes to enable them to make use of whatever less skilled labour is available, as a result of which they may find themselves trapped into producing lower quality products than their foreign competitors. As a result, employers may under-invest in training from which other firms might benefit, but also in training which produces skills that are specific to their own enterprises. Worse still, the process is a cirular one. For the reasons which led to inadequate training in the first place may well have been the product of a management culture which encouraged too many British employers to settle at the low end of the market.

In other words we may be witnessing a common individual and organisational, psychological trait — attempting to do the second-best as well as possible rather than aiming for the initially more difficult first-best. Although Britain has some companies the quality of whose products match the best in the world, there is considerable evidence of widespread low quality — in terms of specification and delivery to specification.

2. REDUCING ECONOMIC DEPENDENCY

The consequences of a low-quality/low skills equilibrium for the UK's long-term competitiveness are serious. Unless we wish to become a low-wage economy by world (and not just European) standards, we have to compete on quality. The implications for the training market are clear. There are many employers who in their own interests ought to do more training. And this is where the second theme of this article becomes relevant, that of economic dependency.

I shall approach the issue by examining an extreme version of *segmented labour market theory*. It is contentious, but useful.

Segmented labour markets

No-one would deny that the UK labour market contains many non-competing groups, by which I mean people in 'privileged' jobs who are protected from competition by barriers of various kinds (in this context it used to be said that the British Medical Association was the most effective trade union in the country). Equally it would be generally agreed that there are many people in 'unprivileged' positions in the labour market, who are prevented from competing on fair terms and obtaining the sorts of jobs which their abilities merit. One reason for this might be discrimination on grounds of race, sex or marital status. Extreme segmented labour market theory, however, goes much further than this. It argues that the economy is systematically divided between good and bad jobs. Workers in good jobs (the primary segment) are usually better paid, and are employed in 'internal' labour markets by employers who wish to retain and develop them. They therefore have 'career prospects'. By contrast workers in 'bad' jobs (the secondary segment) are usually less well paid and are hired by employers who will invest nothing in their training and who care not at all about retaining any particular individual, so long as another body is readily available as a replacement.

That there are good jobs and bad jobs is hardly surprising. What makes SLM theory operationally interesting and significant is *the lack of mobility between the two sectors.* Once trapped into a bad job, an incumbent may find it easy to move to other bad jobs, but almost impossible to get into the primary segment.

Again this is hardly surprising if those who inhabit the secondary segment are intrinsically less able, as well as being less well trained and having fewer qualifications. The point about SLM theory is that it stresses that many holders of bad jobs are just as able and may have as many qualifications as those with good jobs. Bad luck or temporary misfortune may have accounted for them taking such employment in the first place, and they become trapped for a number of reasons.

What are those reasons? Partly it is a matter of what happens to the individual's own attitudes. Partly it is a matter of the perceptions of potential employers. Partly it is to do with the structure of internal labour markets and the policies of those who operate them — recruiting only younger workers for the more junior jobs and filling higher level vacancies by internal promotion.

The extreme version of SLM theory would argue that the divide between the 'primary' and 'secondary' segments of the labour market is clear and strong. But one does not have to accept the whole theory to believe that able and productive people do get trapped into jobs that are way below their true capabilities. This represents a waste for society — our national resources could be used to much better effect.

Clearly there will always be jobs which require very little input of skill or human capital. Social justice demands that an individual has as fair a chance as possible of avoiding them, but economic efficiency is involved as well as social justice — which is where the two themes of this article come together. If Britain is indeed trapped in a low skills/low quality equilibrium, it may be that too many jobs are designed to be at this low end. If we were to adopt the only sensible, long-run strategy of moving to a high skills/high quality equilibrium, a proportion of the dead-end jobs would disappear, to be replaced by better ones. In other words, the structure of jobs on offer would improve.

3. IMPLICATIONS OF BI

So where does BI fit in? To the extent that somebody has to fill the low-paid, low-skilled jobs, then on balance a properly engineered BI would represent an improvement on the current social security system. Since BI is guaranteed and not means-tested, the effective tax rates on incremental income in the lower reaches of employment could be devised to be less than at present. So at the very least, people would be able to do such jobs on better and less demeaning terms, and the unemployment and poverty traps would be reduced.

Some have argued that BI might discourage people from taking paid work at all, which might be true if the BI were set at some very high level, but over any realistic range it is highly unlikely to have that impact on its own. What it might do is to make all the difference to someone who was *on the margin* of such a decision. But would this necessarily be a bad thing? Those who think that it would be a bad thing, have an unhealthy vision of a world where the only alternative to paid work is unproductive dependency. So the issue revolves around the question: *what would those who are encouraged not to work do with their time?*

For young people who decide to remain in full-time education after the age of 16, BI would contribute towards their maintenance and thus help to remove a distortion which currently pushes them into full-time work, often involving little education or development. As for adults, there are many who are not currently in the labour market, but are not in receipt of state benefits — married women, for example. Some of these will be looking to re-enter the labour market. The provision of an unconditional benefit may make the vital difference between such people taking on just any job or (for instance) undertaking a course at the local college of further education, which gives them the capability of finding a better job. Indeed this incentive may act as a spur for some who otherwise would not have re-entered the labour market at all.

Earlier on I described the inadequate provision of training by employers, and suggested that the individual paying for his own training was one possible way of helping to make good the deficiency. There is a limit to how much of the gap individual financing would plug, since much training is available only in firms, is expensive and produces skills that are relatively specific to the firm which provides them. However, there are more generally applicable skills, which could be acquired by people currently not in employment. Not only would this assist such people in avoiding the secondary jobs. It might also reduce the number of such jobs.

BI as a lever change

I also suggested that the attitudes of many employers towards job design needs jolting on to a different plane. Levers are needed for this, and one such lever would be changing the capabilities and, even more importantly, the expectations of potential recruits. By itself the extra training and education that BI enables might be small, but if it made potential employees more demanding of employers, the effect could be magnified. BI could help to create a society where individuals expected more of their employers. If that were to happen, BI would assist the push towards a high-skill, high-quality equilibrium.

What of those presently in work? They have to face rapid and unpredictable change in the composition of output and in production methods. Old skills can quickly become redundant, in which case it is only the lucky ones who receive employer-financed re-training. But sometimes the adjustments involved will be unacceptable to some individuals, whilst others will find that the process of change destroys the firms that employ them. A BI would give both groups more choice, by providing income maintenance during a period of re-training outside the labour market, or outside their present employment.

On its own the BI would clearly be insufficient to finance living costs and the costs of training. But it would help — not only in a direct financial sense, but also by inducing a spirit of greater independence. Independence leads to better long-run choices about employment. Certainly it would be an improvement on the present absurd position, where the availability for work rule deprives people of benefit if they wish to train rather than take a job.

BI and economic efficiency

All the potential labour market advantages of BI depend on two things. The first is the level at which it is introduced. A large BI is not necessarily preferable to a small one, it needs thinking through. The second is the measures that accompany it. For there are no magic single solutions to the complex problems outlined in this article. Nevertheless, what is clear is that BI is not just about correcting unfairness or inequality. It is also a potentially important lever for improving economic efficiency.

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How much is enough?

Jonathan Bradshaw

If Basic Income were accepted in principle, the next hurdle would be to agree the BI amounts. BIRG distinguishes between Full Basic Income (enough to live on) and Partial Basic Income (not enough to live on), yet this terminology begs some of the most difficult questions in social policy. Who can say how much income families of different sizes and composition need to live on? Existing benefit rates are not much help — on the contrary, they are the result of political compromise over many decades. The ***Family Expenditure Survey*** *is an important source of information, but it only shows how families spend the money they have. A quite different technique involves the compilation of* ***budget standards,*** *set either at a minimum subsistence level or a modest-but-adequate level (the latter is roughly twice the minimum). For each main family type a basket of goods is selected and priced. The choice of items is arbitrary and controversial, but so long as sufficient attention is paid to consumer behaviour, budget-standards methodology has significant advantages in comparison with expenditure data on its own.*

It was Seebohm Rowntree who pioneered the use of budget standards, when he set a minimum subsistence standard for his 1899 study of poverty in York.[1] In 1942, Beveridge used similar techniques to produce a budget standard which (he hoped) would be used to determine the level of benefits for Britain's post-war social security system.[2] In recent decades, however, budget standards research has not been fashionable. Instead the study of living standards has become increasingly dominated by analysis of changes in the distribution of income between different groups in the community, and the kind of social indicator methods pioneered by Townsend.[3]

This tendency is less pronounced outside the UK. In the United States, Canada and a number of European countries budget standards have been devised and are employed for a variety of purposes, including setting child allowances and foster-care allowances, evaluating the adequacy of state benefits or tax allowances, helping the courts to determine appropriate maintenance payments, and providing general guidance in budgeting behaviour.

The Family Budget Unit

The origins of the Family Budget Unit (FBU) go back to 1985, when a small group of people came together, intent upon rescuing budget standards methodology from the junk heap.[4] With a grant from the Joseph Rowntree Foundation, a collaborative two-year research programme is now underway, with the objective of publishing up-to-date estimates of the costs of living at a modest-but-adequate standard for families of different sizes and composition.

The essence of budget standards methodology is that normative judgements are used to produce baskets of goods and services, for selected family types. To do this, judgements have to be made about the items to be included in the baskets, and the lifetime of each item (where appropriate). The budget is then priced. To some extent the judgements are based on what people need (e.g. to obtain a healthy diet), and to some extent on behavioural evidence (e.g. consumer surveys) of the items most commonly purchased, how long they last, and which are the most representative forms of consumer behaviour.

The FBU budgets are at present being put together by collaborating teams — the food budget by nutritionists at King's College, University of London; clothing, household durables and leisure expenditures by home economists at Sheffield City Polytechnic; housing, fuel, transport, personal care and overall coordination by a team in the Department of Social Policy at the University of York. The judgements made in respect of each commodity are not being made by any one researcher working alone. For most of the commodities there is a specialist group, who provide guidance in the drawing up of the budget. In the case of some commodities — for instance food consumption by the elderly and family leisure activities, some original empirical research is being undertaken, which will inform the judgements made.

Finding a balance between needs and choice

Although a budget standard must be largely determined by normative judgements, in the end the budget has to match the ways families actually spend their money. To this end the research programme involves extensive analysis of the Family Expenditure Survey, National Food Survey and General Household Survey, the first two of which provide behavioural expenditure data that can be used as reference points for the budgets derived by normative judgements.

FBU programme

In the first instance budgets will be derived for six standard family types:

Single-person family
1. Single householder of working age
2. Single householder — woman aged 60 or over.

Two-adult family
3. Couple — man aged 34, woman aged 32

Nuclear family
4. Couple (as above) — plus two children, girl aged 4 and boy aged 10

Lone-parent family
5. Woman aged 32, plus two children as above

Extended family
6. Couple of working age, plus single pensioner and two children (as above).

It is hoped that, with the experience of producing budgets for these standard families at modest-but-adequate living standards, it will in due course be possible to add extra family types, vary the ages of adults and the number and ages of children, and produce budgets representing other living standards. There are also other important factors affecting needs that could be built into future budget research — for instance the costs of working, the costs of pregnancy and childbirth, the extra costs of disablement, and the care needs of the dependent elderly.

At this stage of the study, it has been decided to price the budgets at fixed points of time (October 1991 and October 1992), and at one location — York. However, we shall be investigating how it might be possible to update the budgets with movements in prices, and also take account of regional variation in prices. Additionally (perhaps every five years) there should be a more detailed reappraisal of the budgets, taking into account the effects on consumer behaviour of economic and social change.

Difficulties

Budget-standards methodology presents a number of problems that may explain its recent unpopularity — in the UK and elsewhere.

- **Time-consuming.** Developing a budget standard calls for careful judgements about every detail of consumption. This is time-consuming and tedious work. It certainly takes more effort (and is more expensive) than the secondary analysis of behavioural data.

- **Conceptually incoherent.** Budget standards methodology is fundamentally pragmatic in its mix of normative and behavioural data. It inevitably uses a mixture of expert opinion and hard evidence on consumption patterns. Although the foundation is substantially normative, there is no real conceptual coherence in this mixture of methods.

- **Not scientific, but not prescriptive either.** The normative judgements about what should be included in the budget are made by 'experts', but this does not give the budgets a scientific basis. While there are some scientific underpinnings to the food budget (based on nutritional science), and the fuel budget (based on accepted principles concerning the thermal characteristics of buildings), other budget components (e.g. clothing, leisure, household durables and personal care) involve no scientific (or even quasi-scientific) pretensions whatsoever. It is worth noting also that budget standards are not designed to be prescriptive about how people should spend their money. Misunderstandings do nevertheless occur, and in Scandinavia they have been used prescriptively.

- **Not tablets of stone.** If there are no scientific claims, what authority are the FBU budgets likely to acquire? In producing budgets it will be important to explain why an item is included, the basis for the number of items, their lifetimes and prices. Often there is behavioural evidence to support such decisions. It may also be possible to build up *democratic support* by getting the budget validated by panels of consumers beyond the original experts. In the end, every budget is open to criticism and can be adapted. Indeed, the unique quality of a budget as a measure of living standards is that it *is* transparent and *can* be altered, without needing special knowledge. Those who disagree can make their own judgements, put in whatever alterations they please, and observe the consequences for the overall budget.

Implications for Basic Income

None of those engaged in the FBU's research programme is committed to it as the best or only way of representing living standards. We do believe, however, that it is an approach whose time may once again have come. Living standard research which relies entirely on data from expenditure surveys is misleading, because families cannot spend money they do not have. By introducing normative as well as behavioural considerations the FBU hopes to raise the level and quality of debate.

Who knows? Budget standards might also, one day, help to inform the level at which a BI was set.

Jonathan Bradshaw is Professor of Social Policy at the University of York. Any reader requiring more information about the Family Budget Unit's research programme is advised to contact Autumn Yu at the Department of Social Policy and Social Work, University of York, Heslington, York YO1 5DD.

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Towards a full BI

Greetje Lubbi

This is a transcript of Greetje Lubbi's opening talk at BIRG's 1990 Toynbee Hall conference. In the Netherlands, unlike the UK, there is considerable discussion about BI within the trade union movement.

My trade union, the Voedingsbond FNV, has been pleading for a Full Basic Income — enough to cover the basic living costs of every Dutch citizen — since 1980. The BIs would be paid irrespective of marital status and irrespective of whether or not the recipients were in paid or unpaid work. The only condition would be legal residence. The amount for children would be lower than for adults, but higher than existing child benefits. The BIs would be financed by a mixture of income tax and value added tax.

1. Origins of the discussion

The interest in BI is three-dimensional:

- Economic — as a result of increased unemployment
- Ethical — calling for a redefinition of what we mean by work
- Social — adjusting to the new role of women in society

Unemployment. During the 1970s, unemployment became a major problem in the Netherlands — as elsewhere — due partly to the international economic crisis that followed the rise in oil prices, and partly to the impact of new technologies, which result in fewer unskilled and semi-skilled jobs. Many people — including members of my own union — came to the conclusion that full employment in the traditional sense will never return, the trade union movement will therefore become weaker, and so will the bargaining position of individual workers. To offset these effects, BI would need to be combined with reductions in working time. Eventually the average working week should be reduced to 25 hours.

The work ethic. Within the existing economic system, the value of work is decided by market forces. Paid work provides those who do it with an income, whereas unpaid work does not. Consequently those who do unpaid work have no income and no social status, and the work they do is under-valued. Yet for socity as a whole, much unpaid work is extremely important.

The role of women. One result of women's emancipation is a slow but continuing process of 'individualisation' — for taxation and for benefits. Traditionally the husband was the breadwinner, while the wife took care of the children and did the housework. Nowadays, more and more women are in paid work. Of course there have always been some wives in paid work of one sort or another, but the tradition was not so strong in the Netherlands as in some other countries.

Until the 1980s Holland's social security system was fairly generous, but during the 1980s there were many retrenchments. Today a new poverty has come into our society. At a time when it is becoming increasingly necessary for both spouses (or partners) to do paid work, the policy of increased reliance on means-tested benefits is discouraging women from taking jobs and becoming economically independent. Our system of social security benefits, housing benefits, local subsidies and so forth produces poverty-trap and unemployment-trap effects, because earnings are deducted from benefit entitlements. These problems are similar to those described by Paddy Ashdown in BIRG Bulletin No. 10.[1] Also, the Dutch social security system has become so complex that even a trade union official with expert knowledge of its technicalities finds it impossible to remember all the regulations. In 1987, when there was a major reform of the social security system, only two out of 150 Members of Parliament are said to have understood the changes.

Complexity is one reason why our social assistance system and other subsidies are under-used. Many potential claimants don't claim, because they don't know their rights. Many others are discouraged by the complexity of the bureaucratic procedures. And many more are too ashamed to claim.

Complexity also results in something more sinister. Instead of enhancing the democratic process — which is what most of us would wish for — complexity becomes an instrument by which governments are able to erode it. The more complex the system the easier it becomes for governments to 'divide and rule'. Each retrenchment is 'targeted' at a specific group. Ostensibly the 'targeting' increases the system's efficiency, but in reality it turns claimants into second-class citizens.

2. Ten years of discussion

When the idea of BI was first mooted, it was greeted with incredulity. We were told we had gone out of our minds — we were accused of being crazy Utopians. Then, during the 1980s, BI moved onto the agenda of more and more organisations and political parties. The Werkplaats Basisinkommen (Basic Income Workshop) includes in its membership two political parties, two trade unions and several claimants' organisations, including representatives of people with disabilities and of divorced women dependent on social assistance. The Werkplaats publishes and organises seminars and debates.

At present the strongest critics of BI come from the traditional left. Most trade unions, and the Dutch Labour Party, are against BI. Their main objection is that a full BI would abolish the obligation to do paid work. They are afraid that if individual citizens were allowed to claim income from society, society might oblige them to do paid work in return. They are also afraid that BI would increase dependence on the state, would be tantamount to an acceptance of mass unemployment, and would erode the work ethic. Additionally, members of the women's movement are afraid that BI would undermine the progress of women's emancipation. They argue that emancipation will only succeed if women participate in paid labour — whereas BI would keep them at home.

My view is rather different. I think that my union's demand for BI *plus* working-time reduction will strengthen the process of emancipation. Of course, it is necessary to ensure that women are in a position to participate in the labour market — through measures like more childcare provision and more education and training programmes for women. But we believe that BI, by reducing the relative status of paid work, would encourage more men to do their share of house-work.

BI is also criticised by the political right. A full BI, we are told, would remove the financial incentive to work. Moreover, according to the Christian Democrats, it would weaken the family — which is the cornerstone of society.

In 1985, the Netherlands Scientific Council for Government Policy published a report in which they recommended introduction of a partial BI (not enough to live on), together with various benefit cuts.[2] The interesting thing about this report was its recognition of the need to change the existing, non-individualised and bureaucratic system with all its complexities. The disadvantage was that they only took the first step. Since they could not be sure of the effects of a full BI on the labour market, they rejected it, and recommended a small, partial BI (PBI) instead. Also, they recommended that introduction of the PBI be linked to abolition of the national minimum wage; abolition of some employment protection legislation (e.g. laws that protect workers against unfair dismissal); and the inclusion of measures to encourage flexible working practices within employment contracts.

Those recommendations made it impossible for the Voedingsbond FNV (and most other BI supporters in the Netherlands) to show any sympathy towards the report. The Labour Party and the majority of trade unions were and are against BI anyhow. The right-wing political parties reject anything that increases public expenditure. So the report quickly dropped out of public discussion.

3. State of the debate in 1990

Regarding the current debate I am positive and optimistic. The content of the debate is becoming better informed, but it remains dificult to convince the big organisations. Within the trade unions, political parties, churches and voluntary organisations there are many individuals who are convinced that BI is the only way forward, and that it is inevitable. But their unions, parties and churches continue to oppose any such suggestion.

Instead, we are left with continuing high unemployment (despite economic growth), and our centre/left coalition government continues to make piecemeal reforms. By using 'trendy' words like *social innovation*, politicians seek to create the illusion that they are going to solve the problems of poverty and unemployment within a couple of years. The official policy document of the biggest trade union organisation still says that "we fight for full employment". But nobody dares prophesy how many years it will take to win that battle.

Meanwhile our trade union federation is preparing a very complicated discussion about how to change the social security system into one that is based on the individual. Their efforts are praiseworthy, but their proposed system will be extremely complex, bureaucratic and full of duties and obligations. So far the BI alternative has not received a fair hearing, because it is *unconditional*.

Finally, it may be that the debate about BI will come more to the fore as part of the debate about the environment, and the limits it imposes on economic growth. *Werkplaats Basisinkommen* is preparing a conference where I hope the two issues will meet. In the Voedingsbond we look forward to a society where the ecological limits to economic growth are generally accepted, and where every ndividual receives an unconditional BI as a prerequisite for individual development and self fulfillment.

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Can BI-type scheme be made affordable?

Steven Webb

This article summarises part of the argument put forward in ***Beyond the Welfare State: An Examination of Basic Incomes in a Market Economy****, an important new book written by Samuel Brittan and Steven Webb, and published by the Aberdeen University Press in December 1990 (see Books Received). Here Steven Webb summarises the case for a BI system that takes the family instead of the individual as the unit of assessment.* ***Beyond the Welfare State*** *also contains a discussion by Samuel Brittan about the political philosophy of Basic Incomes.*

On grounds of cost alone, full-blown Basic Income (BI) schemes are (in the words of the late Brandon Rhys Williams) "altogether out of the question".[1] This contention would probably not be disputed even by the most ardent advocates of BI. Where there is less agreement is on how best to achieve the principal objectives of BI at a lower cost.

A wide range of schemes has been advanced, which all attempt to save money by reducing the level of the BI payment — at least until the economy grows sufficiently to finance a subsistence BI. As a result, supplementary contingency benefits are required for the poorest families, whose BIs are insufficient to lift them out of poverty.

One drawback of this approach is that during the transitional period, the tax and benefit systems may become *more* complex rather than less, with individuals being in simultaneous receipt of national insurance benefits, means-tested benefits, transitional BIs, non-means-tested benefits, and possibly also paying income tax and national insurance contributions. All of this is necessary because the BI is inadequate for poverty alleviation.

In *Beyond the Welfare State,* I examine an alternative approach, which would avoid the complexities of the transitional schemes outlined above, and would achieve many of the benefits of BIs, but at an acceptable cost. In the scheme which I consider, a central feature is that the cost of the income guarantee is reduced by making the assessment unit the family rather than the individual. In line with current Department of Social Security regulations, I define 'family' as a single person or heterosexual couple (married or unmarried), plus any dependent children. I recognise that this will be anathema to many supporters of BI, but I would argue that at the very least as a transitional strategy this approach would have many attractions.

Under the final scheme which I examine, the Income Support, Family Credit and income tax systems are integrated into a single mechanism through which every *family* receives a BI approximately equal to their current Income Support allowances and premia (excluding housing and community charge benefit), and pays income tax at a flat-rate 40% on all their other income (above a very small personal tax allowance), plus national insurance contributions at 9%.

For example a single person would receive a BI of around £37 a week, and would pay tax at 40% on all their other income, except for the first £10 a week; a couple with two children aged 4 and 6 would receive a BI of £90 a week; and a lone member with two children aged 4 and 6 would receive a BI of £73 a week.

The flat-rate income tax has analytical and administrative attractions, but is not integral to the scheme. All national insurance benefits would be abolished, although existing rights to State Earnings Related Pension (SERPS) would, of course, be honoured. A supplementary BI would be needed for those currently entitled to invalidity benefit, who might otherwise lose heavily from the proposal.

Advantages of a family-based scheme

The greatest single attraction of such a scheme is its ability to relieve poverty at the level of the family unit. An unconditional BI, set at or around current income support levels, would be available to, and received by, all families. This would be of particular benefit to the 2.9 million individuals (including children) who in 1987 lived in families whose net incomes were *below* the then supplementary benefit levels.[2] Such a result would not be achieved under the individual-based transitional schemes of the sort outlined by Brandon Rhys Williams in *Stepping Stones to Independence.* This is because the poorest families would still have to claim means-tested or income-tested supplements to their BIs, and so the old problems of non-take-up would remain.

As well as its attraction in relieving poverty, a family-based scheme might also prove more acceptable politically. An attempt to introduce an individually assessed BI would run into objections analogous to those which are heard each year in the debate about child benefit uprating. Why, it would be asked, should benefit be paid to the non-earning partner of a high-earning individual, instead of being directed at needy families? A family-based scheme would not be susceptible to this criticism. Rather than expecting politicians to swallow a move to unconditional payment of benefits *at the same time as* a move to paying benefits to non-working partners of the rich, perhaps the first (and in my view more important) principle should be pressed whilst the second is left on the back burner?

Some advantages of 'pure' BI would remain

Before responding to some of the objections to a family based scheme, I would stress that many of the advantages claimed for pure BIs would be retained under a family-based BI scheme. As with pure BI, benefit receipt would no longer be dependent on a record of national insurance contributions — a current practice which Brandon Rhys Williams has eloquently described as "a system of exclusion".[3] There would be no disqualifications on grounds of capital, non-availability for work, 'voluntary' unemployment and so forth. There would be a unity of treatment between those on low incomes and those on high incomes, both in terms of the mechanisms by which the BI was delivered and the rules by which BI entitlement was determined. All these attractions of pure BI could be achieved under a family-based scheme, with the added advantage, noted above, of relieving poverty at a family level.

It is also worth noting that during what could be a very long transitional period individually based BIs would achieve relatively few of the main objectives of BI supporters. In the early stages, they would leave many millions of families dependent on the current system of means-tested benefits, with all its limitatiions. For example, the (admittedly small-scale) transitional BIG scheme described in Chapter 4 of *Stepping Stones to Independence* leaves means-tested benefits expenditure at 85% of its present level, and reduces the caseload by an even smaller proportion.

Disadvantages of a family-based BI

I would however be the first to acknowledge that compromise on the assessment unit would itself involve costs. In the first place, in an age when the 'traditional' family unit is becoming increasingly atypical, it may seem anachronistic to base a benefit for the 21st century on the family unit. This problem arises particularly because of the need to determine when two individuals should be treated as if they were husband and wife, and I would not wish to understate the importance of this problem. It is important however to realise that the proposed individually based transitional BI schemes would not escape from this problem entirely, because of their need for a residual family-based scheme for those families where the transitional BI was inadequate.

A second possible criticism of the family-based approach is that it does nothing to alleviate poverty *within* families. Where benefits are paid to one member of the family there can be no guarantee that all family members will ultimately benefit equally. However, there is no reason in principle why benefit assessed over the family unit could not then be delivered directly to each individual in the family — perhaps with the child BIs being paid to the caring parent, as with child benefit. The main practical problem with this approach, of course, is that administrative costs would be higher. A judgement on the relative merits of this strategy would depend on the extent of incomplete sharing within family units at present.

A final criticism which has been made of the use of the family as the basis of assessment is that it may favour cohabitation over marriage (or conversely and *in extremis*, that it may encourage divorce or separation). In recognition of the economies of scale available when people share accommodation, current policy is to pay smaller benefit amounts (per head) to married and unmarried couples than to single people. There is thus a small financial incentive for low-income heterosexual couples to split up. By contrast an individual-based BI is neutral with respect to marriage.

If however, a couple can live more cheaply than two independent adults, then it seems not unreasonable for the benefit system to reflect this fact. I would however recognise that this better direction of resources may be achieved only at the cost of intrusion into the private lives of some unmarried people living together, and once again there is a conflict between alternative objectives of the benefit system.

BIRG should think again

To sum up, as a transition to an extensive (and expensive) system of individually assessed Basic Incomes, advocates of BI have two alternatives. Either they can go for individually-based partial BIs plus family-based, income-tested supplements; or they can consider family-based schemes, with the BI amounts tailored according to family composition, but without the need for income-tested supplements. The second alternative might be politically more attractive, especially during the transitional priod. I am not convinced that this second avenue has received sufficient attention from the advocates of BI.

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Australia: Arguments for Basic Income in a Poor-Law Welfare State

Peter Travers

This article is based on a paper presented at the third international conference on Basic Income, organised by the Basic Income European Network (BIEN) in Florence last September. In social policy terms Australia has always been 'a bit of a loner'. Minimum wage legislation has been in operation since 1907, and a free health-care system was introduced in 1974. But national insurance has been studiously avoided. Despite this, Australia's social security system has redeeming features, some of which could form the basis of a case for BI.

Australia is an unlikely candidate for BI. In cross-national studies, the Australian welfare state is generally seen as closest of all to the 19th century Poor Law model. Benefit programmes are highly means-tested, with the result that recipients tend to be stigmatised and to share a dubious form of equality — the equality of poverty. All but those who fail in the market are encouraged to provide for themselves through the private sector.

This is not a promising start for BI supporters. At the anecdotal level, I can cite my frequent (non-random) attempts to explain the rationale for BI. The first reaction is to confuse it with negative income tax (NIT) or guaranteed minimum income (GMI), which, though notionally paid to all, is 'clawed back' via the tax system as private income rises.[1] When I explain that BI is an unconditional, untaxed, universal payment, the response is usually one of incredulity. *The welfare state is to help the poor. Why would you give money to people who are not poor?*

And yet, as Esping-Andersen has noted[2], no welfare model exists in pure form. In this paper I examine ways in which Australia does and does not approximate to the Poor Law model. Until recently, the system was deceptive, with considerable deviations from the Poor Law model which are now being rapidly eliminated. In this context I shall then examine what arguments might realistically be advanced for a limited form of BI.

Conformity with the Poor Law model

Ostensibly, the bulk of the Australian social security system (which is overwhelmingly the responsibility of the Federal Government) is intended *to assist people in economic hardship because they are unemployed, or are unable or not expected to work because of age, invalidity, sole parenthood or similar factors.*[3] Notice that the aim is to *assist people in economic hardship,* in circumstances where work is not an available option, rather than the more expansive aim of maintaining one's standard of living in the face of life's contingencies. The only part of this statement that would offend the Poor Law Commissioners of 1834 is the inclusion of sole parenthood as an excuse for not working — yet it is quoted from Budget Statements 1990-91.

There is no insurance component in any of Australia's income maintenance programmes. Since the first venture of the Federal Government into the arena of income maintenance (the Invalid and Old-Age Pension Act of 1908) funding has come from general revenue. In keeping with the Poor Law model, almost all pensions and benefits are subject to a means test, which covers both income and assets.[4] The benefit rate is more or less standard, though groups like the single unemployed are treated slightly less favourably. The rate is low, and rarely meets the generally accepted target of 25% average male gross earnings. This is a very low replacement ratio by OECD standards.[5] The upshot of these low rates is that claimants appear regularly at the bottom of income surveys, and to that extent do indeed share 'an equality of poverty'.

Most benefits and pensions are taxable[6] though a special tax rebate means that claimants with little or no other income do not pay tax. For those who do have additional income, the interaction of income tax and a means-test taper of 50% (above a low threshold), can result in the extremely high, effective marginal tax rates that typify targeted welfare programmes. Poverty traps are a notorious consequence. For instance, the wives of unemployed men are much less likely to be in employment than are the wives of employed men.[7]

Deviations from the Poor Law model

Although most claimants have low incomes, they nevertheless constitute a surprisingly disparate collection of groups, who differ greatly from each other in terms of living standards.

There are two mechanisms by which most programmes are conditional — targeting and selectivity. Following Peter Saunders' usage,[8] *targeting* is the term used when the eligible categories of need are restricted, while *selectivity* refers to means-testing. Saunders points out that whereas targeting has been tightened under the present Labour Government, selectivity is still relatively benign. For instance, actual Federal outlays for the old-age pension are 69% of what they would be if coverage of the aged population were universal. This is a far cry from a Poor Law type payment to a marginalised group.

It is not obvious what the combined effects of targeting and selectivity will be in terms of claimant living standards. In theory, means testing should result in a claimant population that is relatively homogeneous in terms of income, and some assets. In reality, the means/assets test makes no claim to be comprehensive. The family home, for instance, is excluded, and there are marked differences between claimants in relation to home ownership. These differences correlate with life-cycle variations, for instance old-age pensioners are more likely to be owner occupiers than lone parents. The Table shows that — in terms of wealth — Australian social security recipients are by no means a homogeneous group. Old-age pensioners and veterans are clearly in a very different situation to unemployed claimants and single parents.

Categories of benefit recipients, by housing tenure, 1986

Benefit category	*Owning outright*	*Buying*	*Renting*	*Board*
	PERCENTAGES			
	%	%	%	%
Old age	71.2	4.4	21.0	2.4
Sole parent	5.4	12.9	70.7	9.3
Unemployed	8.1	9.7	51.3	30.1
Veterans*	65.8	22.2	10.5	1.4
Non-claimants	26.5	33.2	32.4	8.0

* Includes means-tested service pensioners and non-means-tested war disability pensioners, war widows and dependents.

Source: Australian Bureau of Statistics, Income Distribution Survey, 1989: Sample File.

A second deviation from the Poor Law model is the resilience, in budgetary terms, of expenditure on social security. During 1986-87, Australia suffered a rapid decline in the terms of trade, followed by alarming increases in foreign debt and the current account deficit. Part of the response of the federal government was to cut public expenditure, which fell from 30.4% of GDP in 1985 to 24.5% in 1989.[9] Despite this, and despite a big fall in unemployment, expenditure on income maintenance has held up relatively strongly. In fact, many *new* social security initiatives were taken during this period, involving major additional expenditure. The most dramatic of these was the indexation of all family payments (i.e. the component of all pensions and benefits covering the costs of children) to the Consumer Price Index, from January 1990. This is not what might have been expected from a pure Poor Law model.

Finally, the sheer comprehensive coverage of the system does not accord with the Poor Law model. One consequence of the absence of an insurance principle has been the absence of any category of citizens who fail to qualify for benefit on grounds of inadequate contribution record, or having exhausted their entitlements. Although there has never been anything remotely resembling an unconditional BI, the system of conditional entitlements is so comprehensive that lack of coverage is less an issue in Australia than in many European countries.

Exploring the deviations

Australia's version of the Poor Law is therefore, at the very least, a particularly generous one. Although the main official reason for income maintenance is relief of hardship — in cases where work is not possible or not expected — and although most programmes fit this rationale, not everything does. There is also official recognition of much broader reasons for income maintenance, for instance the additional costs faced by low and middle-income families with children, and compensation for veterans with war-related disabilities.

These exceptions apply to some very large programmes. Family allowance, which covers some of the additional costs of children, is now means tested (it used not to be), but only some 10% of the richest families are excluded. And there are other, much smaller, non-means-tested programmes — like pensions for the blind and the child disability allowance. Most significantly, Australia also has a statutory minimum wage, thereby reducing the need to supplement earnings through social security payments. In this regard, the Australian model is very strong indeed. In terms of state regulation of minimum wages and relative rates of pay, Australia has had one of the most interventionist regimes in the capitalist world throughout the 20th century.[10]

What this discussion suggests is that Australia has a more complex form of welfare state than its obvious Poor Law features suggest. There are a wide variety of programmes that are not based on the relief of poverty. In fact, there is a strong state-interventionist strand that diverges markedly from Poor Law principles.[11] However, I will now argue that these deviations are under threat.

The Poor Law model purified

It is important to note the prominent part taken by labour in the development of the Australian Poor Law model. In the debates at the turn of the century, it was a matter of principle for Labour parliamentarians that contributory systems along Bismarckian lines should be rejected. There is a surprisingly modern ring to some of their arguments. For instance, it was feared that a contributory system would penalise the sick, the feeble, and women — and that the large proportion of the Australian work-force at that time engaged in casual, seasonal labour would not be in a position to make regular contributions. It was also claimed that a contributory system was contrary to labour principles, in that it put the basis of entitlement on insurance contributions rather than on the contributions men and women make to the wealth of the nation through their work.[12]

This strong focus by labour on issues other than poverty relief went hand-in-hand with a traditional concern for the worst-off, as typified by the massive campaigns for a 'living wage' at the turn of the century.[13]

More recently, the balance has shifted to a single focus. The present Hawke Labour Government makes no apology for the manner in which it has narrowed welfare state coverage to those 'in greatest need'. On the contrary, it frequently cites this as one of its greatest achievements, and one that has required considerable political courage.

The list is formidable:

- The process of removing the means test from the old-age pension, that had begun in 1972, has been reversed
- A means test has been imposed on family allowances
- A new, means-tested *Family Allowance Supplement* (additional to family allowance) means that minimum wages can be set lower, with the social security system playing a stronger role in poverty relief
- The pension for older widows without dependent children is being phased out. These women are now expected to work.
- Targeting, in the sense of stricter eligibility criteria, is being rigorously enforced.

- The custom has been established of some wage rises being taken in the form of employer-financed superannuation. This means that, for the first time, a majority of workers have a form of semi-private provision for old age.
- Much stricter enforcement of child maintenance by non-custodial parents has resulted in a significant transfer of costs from the public to the private sector.
- In tertiary education, a Higher Education Charge has been introduced into a system that was previously free.

These changes are only partly due to economic rationalism. The new focus on poverty relief has had the enthusiastic support of the *left* of the labour movement — as has the development of 'active' labour market policies.

At their best, active labour market policies can be seen as an affirmation of the right to work. At their worst, they can be seen as a reintroduction of moralistic criteria for benefit entitlement. In Australia, regulations that excluded people with moral defects (e.g. desertion, criminal convictions, drinking) had been progressively removed from social security law by the 1970s, and generally well before that in administrative practice. Today's 'active' policies represent a new emphasis on the moral claim that good citizens should be willing to work for a living.[14]

My gloomy conclusion from all this is that the Australian welfare state is reverting to type. There is a strong tendency for the deviations from the Poor Law model that peaked in the 1970s to be 'corrected'.

Basic income and the Poor Law model

It is difficult to mount a case for BI within a pure Poor Law framework. There is, of course, a case for BI solely from the perspective of preventing poverty. Poverty traps are a notorious feature of the Australian system, and BI would represent one solution. In practice, however, this argument is rarely advanced. The tendency is, rather, to believe that some technical solution to poverty traps can be found.

In general there is little support for arguments in favour of universal payments. A pro-universalist case has been made on the grounds that Australia's low ranking by comparison with other countries is directly related to its high selectivity, which does indeed concentrate resources on the worst-off, but on a meagre scale.[15] But at the political level, this argument has had little impact in face of the seemingly simple set of propositions: the aim is to relieve poverty; resources are scarce; therefore we should target the worst-off.

Nor has the case for BI been helped by its association with Guaranteed Minimum Income (GMI) schemes. In Australia all GMI proposals have involved some form of clawback — via a means test — as private income rises. The most elaborate proposal was put forward in an anti-poverty context by the Commission of Inquiry into Poverty (the Henderson Commission) in 1975.[16] The commission itself was extraordinarily influential, in that it established a quasi-official system of poverty measurement that is still in vogue. It also had a decisive effect in that it placed the elimination of poverty at the heart of welfare state activity. However, its GMI proposals, involving a two-tiered scheme (universal means-tested guarantee, plus a means-tested disability supplement) were never adopted. An alternative means-tested GMI proposal put forward at the same time by the Priorities Review Staff shared a similar fate.[17]

Among the reasons for the failure of the GMI proposals in 1975 were a rapidly deteriorating economic situation, and the removal from office of the Whitlam Labour Government in November of that year. The climate for the next seven years was one of *No experiments!* In addition, there is the inherent problem of GMI proposals that their promised simplicity involves trade-offs with the rival goals of adequacy and administrative efficiency.

One more recent (and rare) GMI proposal (by Anne Hawke and Donald Lewis[18]) took simplification to a point where the argument was greeted with derision. Single pensioners, for instance, would suffer a 47% decline in income — to which the scheme's authors replied that they need only cease to be single.

In this context, I do not believe it would be wise to argue for any form of BI on grounds of poverty relief, at least so long as poverty is seen only in terms of low income. If poverty measures were also to take account of the time and humiliation involved in means testing, and the restrictions on choice involved in 'active' policies, then the anti-poverty case for BI would take on a new life. An alternative strategy is to exploit the *other* values embodied — albeit in precarious fashion — in current practice.

Start with a BI for children

My proposal is that a first step would be to seek a BI for children, justified on grounds of compensation to the parents for their special costs, and increased autonomy for those with the care of children. The probable immediate effect of such a proposal would be for some carers at present in the workforce to leave it, and for others at present excluded by poverty traps to enter the workforce. In other words, by partially socialising the costs of childhood, we would expand parents' ability to make genuine choices. As such it would be an example of what Esping-Andersen calls the "pecualiar fusion of liberalism and socialism" that typifies the more elaborate welfare states.[19]

The most obvious starting point for such a limited BI would be to expand the already existing system of family allowances, and make them once again universal. Until November 1987, Australia did have an unconditional, untaxed child allowance. It was introduced in 1976 when child tax relief was abolished, and the amount 'saved' was amalgamated with the existing meagre child endowment scheme. One of the more alarming developments in recent years was the political ease with which an income test was imposed. Part of the reason was that the income test was at a very high level, and excludes a mere 10% of the richest families. More importantly, there was such widespread acceptance that the *only reason* for having a child allowance was relief of poverty, that few voices were raised in protest. My worry is that so long as the argument continues to be couched in Poor Law terms, it will be difficult to sustain even the present official rationale, namely, that parents should be assisted with the additional costs of children if they are poor or only moderately rich, but not if they are very rich.

It could be argued that my pessimism about sustaining even the present Poor Law system underestimates the power of lobby groups. For instance, a notable victory has just been scored (November 1990) by the very vocal farm lobby. The farmers, who are in financial crisis owing to the simultaneous collapse of wool and wheat prices, have succeeded in blocking a government budget pledge to tighten selectivity even further with the introduction of a family allowance assets test, with a threshold of $300,000 net assets (excluding the family home). After protest from the farm lobby, this threshold was raised to $500,000 (£200,000). Yet even this threshold is facing defeat in a hostile Senate, on the grounds that whatever their assets, farmers are still 'poor'.

This line of reasoning makes nonsense of the rationale of 'targeting the poor and middle-income families'. My prediction is that the farmers have gained only a temporary respite, and renewed targeting of the poor will return with more prosperous times on the farm.

The sounder strategy is to shift the reasons for child support away from the Poor Law model. The farmers' case might well be used as a jumping-off point for such a shift of focus. Instead of arguing the tortuous case that asset-rich farmers are in fact poor, it makes more sense to reassert the traditional basis for family allowances: the extra costs involved in raising children.

The 'extra costs' argument was repeated in some detail in the recent federal government Social Security Review.[20] The Review pointed out that the principle of assisting families with the extra costs of their children was acknowledged as recently as 1983, when $200 was added to the dependent spouse rebate in cases where taxpayers have dependent children as well as a dependent spouse. Bettina Cass, the Consultant Director of the Review, has herself given cautious support to a BI for children, though one that would be taxed as private income rises.[21]

The cost of making family allowances once again universal would not be great. Present payments are $18.60 a fortnight for each of the first three children, and $24.80 for the fourth and subsequent children. In 1989-90, family allowances cost $1,810 million, or 6.9% of the social security budget. The re-inclusion of those families excluded by the means test would cost some $210 million. This could be financed in part by abolition of the extra tax rebate for dependent spouses with children (the rebate is currently $1,000 for a dependent spouse, compared with $1,200 for a dependent spouse with children). I am proposing a flat-rate $1,000.

Only a first step

This proposal is very much a first step. But it would have a crucial symbolic value, in a context where the entire social security system risks being squeezed into a Poor Law strait-jacket. My appeal is to an older Australian tradition. It is precisely because this approach contains elements of individualist as well as state-interventionalist philosophy that it may be listened to in a country where both strands of thought have such a long history.

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Abbreviations

ABS Australian Bureau of Statistics
AGPS Australian Government Publishing Service
DSS Department of Social Security
CPD Commonwealth Parliamentary Debates
NSWPD New South Wales Parliamentary Debates
SWRC Social Welfare Research Centre

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At Home and Abroad

ITALY

BIEN International Conference
Economic democracy and citizenship income

Bill Jordan writes: The third biennial conference of the Basic Income European Network (BIEN) was held at the European University Institute at Fiesole (near Florence). It was a memorable Italian occasion, for which BIEN's co-Chairman Edwin Morley-Fletcher, and the Lega Nazionale Cooperative e Mutue, deserve many thanks. Those dismayed by the packed and diverse programme (up to a dozen papers in each 1½ hour session, all plenaries and no workshops or groups) were finally won over. The cumulative effect was exhilarating rather than exhausting, with themes and linkages between apparently unrelated topics emerging, and surprising scope for discussion and debate.

The speakers came from as far afield as Finland and Australia, and included the veteran socialist Alexandre Marc and the distinguished Hungarian dissident economist Tibor Liska. Inevitably, certain national themes did emerge. For example, the German contributors were particularly concerned with discovering obligations to match BI rights; the French with the details of conditionality, as an approach to social inclusion of the 'new poor'; and the British and Dutch with defending the unconditional status of BI. Diferences in national political and civic cultures would be bound to affect the implementation of schemes like BI. For instance, Scandinavians love and trust the state. The Irish do not (Michael Opielka).

A highlight of the conference was Guy Standing's stylish anticipation of his impending trip to Moscow, as consultant to the Soviet Minister of Labour. He treated the audience to a 'Fool's Guide' to reform of the Soviet labour market.

The overall theme of the conference — economic democracy — did not perhaps receive the focus it deserved, especially in its relationship to political democracy. Here again the revolutions in Eastern Europe and the collapse of the Soviet regime pose urgent questions for BI advocates. But it was interesting to encounter the lively debate among political groups in Italy, where James Meade's *Agathoptopia* has been a powerful stimulus.

For British participants it was another reminder of the paradox that BIRG has made a disproportionate contribution to the academic literature on BI, yet the proposal is further from the political agenda here than in many other countries, perhaps including the Soviet Union.

UNITED KINGDOM

Toynbee Hall Conference, 16 June 1990
Getting a BI Scheme off the Ground

Tony Walter writes: BIRG's 1990 annual conference included excellent speakers, good debate from participants, superb food and a sunny day. A speaker from the Netherlands and participants from Canada, France, Italy and Scotland enriched the debate. James Robertson (co-founder of *The Other Economic Summit/TOES* and *The New Economics Foundation)*, was Conference chairman. He opened the proceedings by urging BI supporters to be active in getting the idea across, to take objections to it seriously (whether from Left or Right), to consider funding it through a new (green) tax system, and to be ready for whatever crisis brings BI onto the public agenda.

Tony Walter, speaking on *BI in the culture of the 1990s*, stressed the need for BIRG to research public opinion. Theoretical research on its own is not enough. We also need to know whether BI resonates with the gut feelings of ordinary people. For instance, would the better-off in an increasingly divided Britain recognise the need for it? How strong is support for means testing and for the contributory principle, which BI would abolish?

The main address of the day was given by Greetje Lubbi, representing the Voedingsbond FNV (a major Netherlands trade union for food and agricultural workers). It was a tonic to those present, who have yet to hear a British trade unionist advocate BI with such passion. Her paper is summarised elsewhere in this Bulletin.

After lunch, Ken Mayhew (Economic Director of NEDO) chaired a QUESTION TIME session along the lines of the well-known BBC programme — except that BIRG's panel members avoided party-political bickering. Panel members were Professor Meghnad Desai (London School of Economics), Evelyn McEwen (Age Concern), Hermione Parker (BIRG) and Baroness Seear (Liberal Democrats). The questions, chosen and put from the floor, included the following:

QUESTION: Why isn't BI advocated from the grass roots, by the victims of the present system, instead of academics?
ANSWER: Because the victims are too busy surviving, and the rich are more concerned to protect their interests. Historically, radical ideas have always come from non-conformists and intellectuals in the middle strata of society.

QUESTION: What key groups would be most helped by BI?
ANSWER: The weakest, for instance those with physical and mental disabilities, who are at present criminalised if they work and claim.

Bill Jordan then spoke about the need for a sustainable social environment, and warned against the dangers of associating BI with unbridled individualism. Certainly BI would enhance autonomy, but it must also help to create a Europe that combines the best of individualism with the best of collectivism. James Robertson closed the conference by reminding participants of the implications of BI for the environment.

Basic Income and the labour market

Hermione Parker writes: From autumn 1989 to summer 1990, BIRG's labour-market study group held a series of meetings, culminating in a discussion paper which BIRG will publish early in 1991. These meetings, hosted informally at the National Economic Development Office (see article by Ken Mayhew, elsewhere in this Bulletin) brought together labour-market experts from backgrounds as disparate as the Institute of Directors, the Low Pay Unit, the Trades Union Congress and the London Business School — itself no mean achievement.

The discussions started by clarifying the BI concept, then examined its relevance to labour market change; labour supply; wages and incentives; training and education; and equal opportunities. The main labour-market advantages of BI were reckoned to be: alleviation of unemployment; improved work incentives; income maintenance during study and training/re-training; greater labour market flexibility; and tangible recognition of the value of unpaid work.

Strong fears were nevertheless expressed that BI might act as a subsidy for low-paying employers, and might institutionalise dual labour markets — trapping people in lower-paid, insecure jobs. A national minimum wage (expressed in hourly terms), was thought by some to be the best way of avoiding these possibilities. Others took the view that minimum wages would keep people with low earnings potential out of the labour market. Either way BI would need to be introduced slowly, as part of a wider package, which should include: improved training and education; increased and improved childcare provision; and policies to combat prejudice — not least racism, sexism and ageism.

Social Policy Association Conference

Tony Walter writes: The SPA's 1990 annual conference *(International Dimensions of Social Policy),* held at Bath in July, included a session on Basic Income, chaired by Nicholas Deakin and attended by about thirty people. Hermione Parker clarified some of the misunderstandings over terminology that can plague international discussion — basic income, minimum income, guaranteed income often mean different things to different people, depending on the ways they are translated, and the tax and social security systems operating in each country. Tony Walter's paper *BI and Active Citizenship* surprised some of the audience by its sceptical realism. In another session, Georg Vobruba outlined scenarios for social security in Europe, while notable among the many other papers was Bettina Cass' *Gender and Social Citizenship.* It was good also to see at the conference BIEN secretary Walter Van Trier, this time having a rest after his *tour de force* presentation the previous year.

BIRG North-West

Kevin Donnelly writes: BIRG North-West continues its activities, with its own newsletter and regular meetings at Wythenshawe Friends Meeting House. Four members managed the long (and expensive) journey to London for BIRG's Toynbee Hall conference in June. Kevin was his usual active self at the Labour party conference in Blackpool — giving out literature on behalf of BIRG and BIEN, and asking delegates if they knew about BI. It is important for BIRG to develop closer contacts with the trade union movement. Jeff Rooker MP agreed to ask a union official in his constituency to examine the BI principle, but although some Labour MPs are on BIRG's mailing list, there is little sign of activity within the Parliamentary Labour Party. Conference approved the minimum wage resolution, though much wrangle lies ahead. Kevin's reply is that a minimum wage is OK for those with jobs, but not for others. So it falls foul of the old socialist principle of fairness. **If you live in the North West and are interested in BI, please contact Kevin Donnelly, 20 Nan Nook Road, Manchester M23 0BZ (tel 061-998 4791).**

BIRG South-West

Bill Jordan writes: Over 200 people crowded into the first meeting of BIRG's South-West regional group at Exeter University on 16th November, where Paddy Ashdown MP (leader of Britain's Liberal Democrats) spoke on: *A Citizen's Income for a Citizen's Britain.* The meeting was the first of a series, aimed at stimulating a wide public debate on BI. Paddy Ashdown told his audience — which contained a high proportion from outside the university, including several senior citizens — that:

Basic Income is not just a change in our benefit system. It is a pathway to a more efficient and fairer market economy. And it is a key to the fundamental economic and social reforms that Britain so desperatey needs in the 1990s.

He answered all the main criticisms of BI — that it is a handout to the undeserving as well as the deserving, that it would encourage employers to pay poverty wages, and that it is a Utopian, unaffordable option — in a robust, direct way. For instance:

The concept of a universal benefit should not be new to us. It is, after all, already part of our system as child benefit and the old age pension. My suggestion is that we extend this to apply to all citizens ... In a sense it is like the poll tax in reverse.

He attacked the notion that benefits should be made more, not less, conditional. Schemes like workfare, or training programmes enforced through strict work tests, are not only unfair and damaging to claimants; they are also inefficient. *They act as a barrier to a well-functioning labour market.* Speaking in the week of the Conservative Party's leadership election in the House of Commons, Ashdown commented that Michael Heseltine embraced such proposals, *presumably in order to prove to his more right-wing colleagues that he is tough on the unfortunate.*

After his address, there was a lively hour of questions, which Paddy Ashdown fielded in his familiar, shirt-sleeved style. The meeting showed how extensive is the public appetite for an informed debate — which the two major political parties have a mutual interest in suppressing. **If you live in the South West and are interested in BI, please contact Bill Jordan at Perriton Farm House, Whimple, Exeter (Tel 0404 822809).**

House of Lords All Party Group on Ageing

Hermione Parker writes: On 13th November 1990, at the invitation of Lord Stallard, Hermione Parker explained the implications of BI for older people to a meeting of the House of Lords all party group on ageing. The meeting clashed with Sir Geoffrey Howe's resignation statement "over there", as a result of which fewer peers attended than anticipated! Considerable interest was nevertheless expressed, and it is hoped to set up a small working party to look at the issues. If this happens, we will keep you informed.

Book Review

FUTURE WEALTH: A NEW ECONOMICS FOR THE 21st CENTURY

James Robertson
Cassell, 1989, price £7.95, 178 pages

Tony Walter writes:

In this follow-up to his previous books (e.g. *Future Work*, Gower 1985), James Robertson argues that economic organisation — at local, national and international levels — must be changed in the following ways:-

(a) **It must enable.** Instead of creating dependency, it must foster self-reliance — meaning neither self-sufficiency nor selfish isolation, but the capacity to cooperate freely with others.
(b) **It must conserve** — the world's material resources.
(c) **It must be designed and managed as a multi-level, one-world economic system.**

These aims are not an ideal end state, but operating principles. The book outlines how they might be put into effect over the next few decades — at household, local, national and international levels (chs 4-8) — and paying particular attention to money, banking, taxation, basic income, and currency (chs 9-12). At times, for instance when discussing a new world currency, the author tentatively sketches out ideas which need considerable debate and research, at others he draws on already existing experience — as with local economic development.

The book will be valuable to those who are working towards a new economics in one area (say energy conservation, or simple lifestyle, or overseas development), but who can't see how their chosen passion relates to the rest of a highly complex, but inter-related, world economic (dis)order. Robertson's systematic working out of his three principles at each level from the household to the international is one of the book's strengths.

The book is a sketch of a new world, explicitly written for those who are already converted or half-converted. I doubt if it will convince the more sceptical industrialist or civil servant. This may not bother Robertson, who believes that change always originates outside the Establishment.

Here are some typical comments, with which I agree. Elsewhere, I particularly like his comparison of economists with medieval theologians — obsessed with metaphysics and out of touch with the real world. What we need is a new Reformation:-

> *The idea that economic policies are wealth-creating and social policies wealth-consuming, and that economic policies should therefore be given priority over social policies, is simply not realistic. The world is not like that. (p 16)*

> *An important task for the 1990s is to unravel the web of mystification that business and financial interests have woven around the notions of wealth creation and wealth consumption. (p 47)*

As a sociologist who quite enjoys figures, I have always found economics difficult. So I find it hard to assess Robertson's reforms of banking, capital ownership and currency. Is this because my brain is befuddled by the mystifications of economists, or is it because economic systems are fundamentally hard to understand? I suspect there is more of the latter than Robertson admits. If this is so it highlights the problems of generating the kind of debate Robertson wants: economists will find him utopian, while non-economists will find it difficult to offer a substantive response to his arguments. The challenge, it seems, is how to move from iconoclastic prophecy to a genuinely new economics.

Basic Income is a key component of Robertson's new economic future. In addition to many of the standard arguments (affirming the value of each citizen, demarginalising children and older people, equal treatment of women and men, reduced dependence on paid work and hence on the power of employers), he is deeply committed to the following line of argument:-

- In addition to raising revenue, a tax system should enable people to become self-reliant and cooperative, and should conserve the earth — "the burden of taxation must be shifted away from what people contribute to the rest of society and onto what they take from it."
- Instead of taxing labour that adds value (through income tax and VAT), we should tax things we wish to economise on — such as land, energy, natural resources and pollution.
- Since these new taxes would be levied on rich and poor alike, a BI is also necessary — to make the system fair and to prevent poverty.
- BIRG's research to date has largely assumed that BI must be funded through already existing taxation (notably income tax), which means that only a modest BI is feasible, unless income tax rates are to go through the roof. Research must now be addressed to the funding of BI from other sources (p 121).

This challenge to BIRG's approach deserves consideration, not least if BI is to attract a younger generation enthused by conservation and ecology. Also, a large BI not funded by taxing paid labour is less vulnerable to the common (if misinformed) objection that BI would use the earnings of the hard-working to fund the idle. Nonetheless, as Robertson himself says, it needs research.

As a start, one might ask:

Can enough money be raised through sources other than income tax? A full BI (set at about one-third average earnings for adults and half as much for children) would cost well over £200,000 million a year. What alternative sources of revenue exist that could raise such a huge amount, and also be politically acceptable?

Are the alternative revenue sources buoyant? BI requires a buoyant tax base, if living standards at the bottom are to keep up with living standards generally. Income tax fills that bill, because over time incomes go up faster than prices. An energy tax, introduced with the aim of reducing energy consumption, would be the opposite of buoyant — unless it encouraged energy use!

How would the BIs be withdrawn? BIs funded through an integrated income tax provide an automatic, explicit benefit-withdrawal system. The higher the BIs and the higher the tax rate the more redistributive (from top to bottom of the income distribution) the system becomes, and *vice versa*. With a BI of £50 a week and a tax rate of 50%, the break-even point at which all the BI would be withdrawn is £100 a week. By contrast, with a BI of £30 a week and a tax rate of 40%, the break-even point goes down to £75 a week. With ecological taxes the incidence of tax would be more difficult to estimate, and the system would be opaque.

Perceived equity? A good tax should be linked to ability to pay. The old rating system for funding local government in the UK met some of Robertson's criteria, by taxing extravagant occupation of houses and land. But it was unpopular, because it was insufficiently related to ability to pay. The poll tax (totally unrelated to ability to pay) has proved even more unpopular. The BI element might bring Robertson's environmental taxes more into line with ability to pay, but this may not be felt by public opinion, in which case his taxes would be unpopular — and we know what happens to unpopular taxes!

Getting there. Robertson's argument assumes a substantial BI. Politics is an uncertain business, and even in the best of worlds we might get stuck with a small BI. Hermione Parker's research has shown that a small BI, funded by an integrated income tax, can be surprisingly redistributive and beneficial, and is perhaps preferable to a large BI. Similar research, showing the consequences of a BI funded by environmental taxes, is necessary before any such proposal can be taken seriously.

Tony Walter is BIRG's Chairman

Book Review

IMPROVING INCENTIVES FOR THE LOW PAID

Alex Bowen and Ken Mayhew (ed)
Macmillan/NEDO, 1990

Jane Millar writes:

Taking the usual definition of low earnings (i.e. less than two-thirds median male earnings), an estimated 3 million full-time UK workers are low paid. A similar, or larger, number of part-time workers are also low paid, bringing the total to more than one-third of the British workforce. Increasingly the UK is a low-wage economy, with the lowest total labour costs (including sick pay and national insurance contributions) of any advanced industrial society.

In 1989 the National Economic Development Office (NEDO) (whose chairman is the Chancellor of the Exchequer) organised a seminar examining low pay and incentives, the papers for which are collected together in this interesting and informative book. One of the main themes of the book is that low pay is a problem for low-paid people themselves (because the tax benefit system removes the incentive to improve their situation); for those who are unemployed (because they have no incentive to take work); and for the economy as a whole (because of a vicious circle of low pay/low skills/low productivity).

Alex Bowen, Dominic Brewer and Ken Mayhew provide a useful introduction in their opening chapter. They argue that low pay and a possible lack of incentives are problems of *labour supply* (the willingness of workers to improve their work performance or take jobs) and of *labour demand* (the jobs and levels of pay available) — both of which require government consideration.

The next three chapters — by Tony Atkinson and Holly Sutherland, Hermione Parker and Patrick Minford — examine the issue of incentives in the tax and benefit systems — the familiar unemployment and poverty traps. Atkinson and Sutherland use marginal tax rates as their measure of the disincentive problem — if you lose 70 pence or more out of any additional £ of earnings, then you are likely to face a financial disincentive. In 1989-90, an estimated 415,000 families were in this position, 88% of these being families with dependent children. The main culprit is Family Credit, with its 70% withdrawal rate, and various policy options (e.g. a lower withdrawal rate, or higher child benefit) are evaluated.

Atkinson and Sutherland raise the idea of Basic Income (BI), but it is Parker, in the next chapter, who develops it in detail. Her definition of the nature of the incentives problem is wide, including *quantifiable* components (e.g. the impact of earnings rules, taxes, and the fragmented nature of family income support), and *non-quantifiable* components (e.g. family breakdown, poor access to child care, and complexity). Tinkering with the current system cannot solve these problems, therefore some way of integrating tax and social security is required. A useful discussion of different approaches to integration is followed by a more detailed discussion of *Basic Income 2000.* This will be familiar to readers of this journal, as will the arguments against it, so I will raise only two points. First, the two-tier scheme outlined (with the BIs paid by central government and the 'cash and care' payments by local government) seems potentially divisive — opening the way to recreating deserving and undeserving categories, and going against that part of BI philosophy which stresses BIs as a right of citizenship and an integrating force in society. Secondly, it would have been interesting to see more attention paid to the idea of a BI for children — this would 'target' those most affected by the disincentive traps, and could perhaps provide a stepping stone to a more comprehensive BI system.

Patrick Minford's solutions are very different. He discounts the idea of BI (and incidentally confuses Parker's *Basic Income Guarantee/BIG* schemes with full BI). Instead he goes for a combination of workfare and lower in-work benefits: workfare will get the unemployed into the labour market at Income Support rates, and a gradual reduction in Family Credit relative to average earnings will eventually eliminate the incentive problem. Thus under Minford's proposals low pay becomes effectively institutionalised — his solution is about getting people into low-paid jobs rather than about ways of helping low-paid people to improve their pay or their incomes.

In the next chapter, by contrast, a strong and compelling argument is made by Ewart Keep that low pay is bad for the economy, and bad for our chances of future prosperity. Keep shows how:

> ... current policy reveals the existence of two competing, and arguably mutually incompatible, models of labour market development. On the one hand is a vision of policies leading to the creation of a high-skill, and implicitly high-wage, national workforce whose competitive advantage lies in their ability to design, produce and deliver high-quality goods and services. On the other hand is a labour market model that sees the way forward in terms of an increasingly numerically flexible, casualised workforce, which possesses very limited job protection, and which affords employers a competitive advantage based on price rather than quality (page 156).

Keep argues strongly and convincingly for the former strategy, and his policy discussion focuses on employer practices (on how to get employers to stop relying on low labour costs) and on skills training (on how to provide a highly skilled workforce).

Skills training is the topic of the next chapter, by Paul Ryan, which shows clearly the lack of skills among those who are low paid, and the difficulty low-paid people have in gaining access to training. Training can improve pay and prospects, but training by itself is not a solution to low pay. The acquisition of skills might take some individuals out of low pay, but the low-paid jobs remain for others to fill. Also, for some people it is not lack of skills so much as other barriers which keep them either out of employment or in low-paid jobs. Lack of child care is a particular barrier for women, making it impossible for many mothers to take paid work, or restricting them to part-time, low-paid jobs.

The need to tackle the problem of the lack of adequate and affordable child care is something that virtually all the contributors agree upon. In their chapter the Confederation of British Industry (CBI) suggest this is ''probably the biggest single barrier faced by the growing number of women with children wishing to return to paid employment'' (page 253). And the Trades Union Congress (TUC) calls for the ''comprehensive public provision of child-care facilities'' (page 276).

Both the CBI and the TUC agree that low pay is a significant problem. The CBI echo Keep's chapter in their first sentence:

> British business has as its objective the achievement of a high-productivity, high-pay, high-employment society (page 225).

However the CBI disagrees strongly with the TUC over the question of a national minimum wage. Indeed, the chapters by the CBI and the TUC provide useful summary articles for and against minimum wage legislation.

All in all this is a valuable book, but it does have two weaknesses. First, although almost every chapter discusses the numbers and definition of low pay, nowhere are these statistics collected together. So the reader has to search through the various chapters for these figues, and since the different authors use different definitions it is difficult to get a clear picture.

Secondly, women are curiously absent from much of the analysis. It is not that they are ignored. The figures show that women have a higher risk of low pay than men (5% of full-time men workers and 23% of full-time women workers, page 14). Women also form the majority of those who are low paid (70%-90%, according to the definition, page 182). And, as noted above, the issue of child-care provision as a barrier to employment comes up time and again. It is rather that, throughout most of the book, the basic analysis relates to men — with women fitted in afterwards, as a special case. Take, for example, the clear focus on full-time work. The CBI present all their low-pay analyses in terms of full-time workers, leaving aside part-time workers, almost all of whom are women, and who are amongst the very lowest paid. Similarly, although Atkinson and Sutherland note that wives of unemployed men have very little incentive to work, they still focus on incentives for the *head of the tax unit.*

Given that most of the employment growth in recent years has been in part-time employment, and it is married women who form the largest potential sources of future labour supply (''of new jobs that will be created up to the year 2000, some 80% are expected to be taken by women'', page 252), is all this gender neutrality helpful? Are the ways in which we currently think about incentives, paid work and unpaid work really adequate for understanding the situation of women? In my view, a sharper focus on gender would have greatly strengthened the conceptual focus of this book.

Jane Millar teaches Social Policy at the University of Bath. Together with Jonathan Bradshaw, she has just completed a major study of Lone-parent families in the UK (see Books and Papers received).

Books and Papers Received

Basic Incomes and Problems of Implementation, Proceedings of the Second International Conference on Basic Income, held at Antwerp (Belgium) 22-24 September, 1988, under the auspices of the Basic Income European Network (BIEN). This 200 page report has four main sections: how to get a BI system off the ground; political and philosophical implications; labour market effects; and funding. Copies available from BIRG, 102 Pepys Road, London SE14 5SG; BIEN, Bosduifstraat 21, 2018 Antwerpen, B-2018, Belgium; and Werkplaats Basisinkomen, Herman Heijermansweg 20, 1077 WL Amsterdam, Nederland.

Tax Reform, the Rich and the Poor, Joseph Pechman, Brookings Institution, 1775 Massachusetts Avenue N.W., Washington DC 20036, second edition, 1989. A collection of essays, with special reference to negative income tax, and different methods of payment, including an *ex ante* method, similar to BI.

Future Wealth: A New Economics for the 21st Century, James Robertson, Cassell, 1989. See BOOK REVIEWS.

Lone-Parent Families in the UK, Final Report to the DSS, Jonathan Bradshaw (University of York) and Jane Millar (University of Bath), May 1990. First-ever major survey of lone parents in the UK, with essential background information for anyone interested in tax or social security reform. Information on the routes into and out of lone parenthood, the employment, housing and financial circumstances of lone parents, their attitudes and behaviour. Volume 1 presents the survey of results, Volume Two presents the results from the in-depth interviews, and Volume 3 describes the methodology.

A Different Way Ahead, Hermione Parker in *Progress,* the journal of the Disablement Income Group (DIG), Summer 1990. In January 1990 the Government published a disappointing White Paper on reform of benefits for people with disabilities *(The way ahead: benefits for disabled people, CM 917, HMSO).* This article, which incorporates the findings of BIRG's working group on disability incomes (see BIRG Bulletin No. 7, Spring 1988), sets out the case for BI, from the point of view of people with disabilities. Available from DIG, Millmead Business Centre, Millmead Road, London N17 9QU (Telephone 081-801-8013).

Child Benefit: Options for the 1990s, Joan C. Brown, July 1990. A detailed analysis of the case in favour of child benefit, together with discussion of different sub-options — but with little mention of the wider issues, e.g. the fact that child benefit is a BI for children, or that child poverty could be reduced by introducing BIs for the parents as well. Published under the auspices of the Child Poverty Action Group, as part of the Save Child Benefit campaign. Available, price £5, from SAVE CHILD BENEFIT, c/o 4th Floor, 1-5 Bath Street, London EC1V 9PY.

Newsletter of the Basic Income European Network, No 8, Summer 1990. Published three times a year. Ten pages of information about past and future events, and publications relevant to BI. For further information contact Walter Van Trier, BIEN Secretary, Bosduifstraat 21, B-2018 Antwerpen, Belgium; or David Purdy, Faculty of Economics and Social Studies, University of Manchester, M13 9PL.

Can we learn a 'Third Way' from the Agathotopians? James Meade in The Royal Bank of Scotland Review, No. 167, September 1990. An excellent resume of Meade's latest thoughts on Basic Income and *topsy turvy nationalisatiion.* Available from The Royal Bank of Scotland plc, 36 St Andrew Square, Edinburgh, EH2 2YE.

Improving Incentives for the Low Paid, ed. Alex Bowen and Ken Mayhew, Macmillan in association with the National Economic Development Office (NEDO), October 1990. This book is the result of a discussion between Walter Eltis (NEDO's Director General) and Sir John Cassels (his predecessor) after the 1988 Budget reduced Britain's top rate of income tax to 40%. *Surely the aim should be to ensure that low as well as high earners gain at least 60 pence when they earn an extra pound?* The book re-prints papers delivered by seven contributors to a NEDO conference at Oxford in 1989. The subject matter includes reform options like Basic Income, as well as improved training and minimum wage legislation. The contributors are Tony Atkinson and Holly Sutherland, Hermione Parker, Patrick Minford, Ewart Keep, Paul Ryan, the Confederation of British Industry and the Trades Union Congress. (See BOOK REVIEWS).

The Department of Social Security (DSS) Report on Households Below Average Income 1981-87, A.B. Atkinson, Welfare State Programme Research Note No. 22, October 1990. A short analysis of the revised DSS figures (see Editorial in BIRG Bulletin No 11) showing the growth of real income for different groups, the changing shares of different groups in total income, the proportion of the population with less than half average income, the long-run changes from 1979-87, and the short-run change from 1985-87. Available from ST/ICERD, London School of Economics, Houghton Street, London WC2A 2AE.

Beyond the Welfare State: An Examination of Basic Incomes in a Market Economy, Samuel Brittan and Steven Webb, Aberdeen University Press for the David Hume Institute, December 1990. One way to contain, or reduce, unemployment without stoking inflation is by improving the functioning of the labour market. "A genuine market-based approach," says Samuel Brittan, "might involve a Basic Income for all, payable as a tax credit, which would be withdrawn through the tax system once people began to earn money from work" (*Financial Times*, October 10, 1990). Brittan's contribution, which concentrates on the philosophy and politics of BI, makes good and convincing reading. For example: "The only thing wrong with unearned income is that too few have it" (page 4). Unfortunately, unlike BI as defined by BIRG, the one offered by Brittan and Webb is based on family status (SEE article by Steven Webb elsewhere in this Bulletin), so that the BIs of two single people who got married (or 'cohabited') would be reduced from £37 each to £58 together — a marriage penalty of £16. This reduction is justified on grounds of economies of scale, yet two single people of the same sex who decided to live together would continue to receive £37 each. The authors justify their modification to authentic BI on grounds of cost and political acceptability, but seem to underestimate the administrative difficulties. For the costings Steven Webb assumes income tax at 40% plus 9% national insurance contribution (compared with 25% income tax plus 9% NI contribution at present). This change produces large-scale redistribution of income. Families with between two and three times average earnings would lose an average £35 a week, whilst those earning over £1000 a week would lose rather less (Table 4.8, p41). Given the strength and conviction with which the moral case for BI is presented, further work to put the details of this scheme on a comparable basis with those produced at the London School of Economics by Tony Atkinson, Hermione Parker and Holly Sutherland seems well worthwhile.

Features of a Viable Socialism, Hans Breitenbach, Rom Burden and David Coates, Harvester/Wheatsheaf, 1990, £9.95. If people are to be won over to socialism, they need to know what it could be like and how it can deal with the complexities of life in modern societies. In this book the authors reassert both the possibility and desirability of forms of social organisation built on principles of equality, democracy, cooperation and mutual aid — including introduction of a BI. Personal incomes, they argue, should comprise four elements: a BI paid to all adults as of right; a graded BI supplement "for those inherently incapable of contributing fully, or at all, to social production through disability, incapacity, caring responsibilities or old age"; earnings; and limited interest on savings.

Viewpoint

The rights of children — a justification of Basic Income, hitherto unremarked

Maire Mullarney

The following is a shortened version of a paper given at the conference organised by the Basic Income European Network (BIEN) in Florence in September 1990.

When — last June or July — Mr Nicholas Ridley (Britain's former Trade and Industry Secretary) expressed alarm concerning possible loss of national sovereignty, there was a good deal of talk on television. An interviewer asked an eminent banker whether he thought the issue significant, to which the banker replied: *Oh, yes. This is a very important question. It is not like deciding whether to increase the Child Allowance. This is about the kind of people we are.*

Apparently, a kind that doesn't care tuppence about children. For this gentleman had not noticed that the kind of person a person is depends a great deal on the sort of care they were given when young.

Children are people

BIEN *pensants* would never say anything like that. Nevertheless, when listening to the papers given during a BIEN conference in 1989 (in Louvain-la-Neuve), I felt something was missing. Whether the references being made were to John Rawls' *Theory of Justice*, to Robert Nozick's views on entitlement, or to John Locke's principles regarding the private appropriation of natural resources, all were concerned with distribution among or appropriation by adults.

The gist of Locke's argument is that "he who has gathered as much of the wild fruit, killed, caught or tamed as many of the beasts as he could ... by placing any of his labour on them, did thereby acquire a propriety in them ... "[1]. There *he* is, strong, active, not just picking fruit but capturing animals — and forming a traditional part of the discussions of philosophers. Not merely an adult, but an adult male.

Something is overlooked, as in the usual picture of the Ascent of Man. Our ancestors are pictured hunting together in groups, running across the savannah, having spare hands in front to throw stones, able rapidly to climb any trees that might occur. In her remarkable book *The Descent of Woman*[2], Elaine Morgan points out that a significant proportion of those early 'Men' would have been pregnant, or carrying babies, and in no form for running or climbing. Instead, she showed how lakeside development would have suited both sexes and encouraged the invention of speech.

I wish to suggest quite simply that if we are concerned with 'a person's natural right', we should never forget that at some time that person was very small, quite unable to capture animals or cultivate the soil, and neither had, nor asked for, anything more than his or her mother's milk and attention. Warmth, clothing and so on depend on climate; the first concerns are love and nourishment.

Children need their mothers

The core of my argument lies in the concluding paragraph from *Love and Hate* by I. Eibl-Eibesfeldt, Director of the Human Ethology section of the Max Planck Institute, and hence a successor to Lorenz and Tinbergen:

> The means of bonding have always remained fundamentally the same and they are in origin essentially derived from the behaviour patterns that bind mother and child. The mother-child relationship was historically — and still is in the development of the individual — the nucleus of crystallisation of all social life ... It is innate to us. From the personal mother-child relationship we evolve the 'basic trust' from which our fundamental attitude of sociability then evolves and hence a general commitment. For these reasons, attempts to prevent the growth of such family ties are highly questionable. What has to be done is to strengthen our trust in our fellow men who are not known to us and this starts in the family. Only in this way do we evolve that social responsibility which is a prerequisite for a peaceful communal existence and indeed for our future existence as a species.[3]

"Our future existence as a species". The penalty for error could not be clearer. Yet the market economy *as we know it,* and the partly-planned effects of the conditional support that is (in some systems) designed to fill the gaps, combine to prevent the development of the mother-child relationship judged essential by Eibl-Eibesfeldt.

By the way, I'm frequently in trouble with my Green colleagues — male and female — for talking about mothers when they would prefer me to talk about parents. They say that fathers must — for their own sakes and for the sakes of their children — share equally the child-rearing and house-keeping roles. To which I reply that there would be a great advance in civilisation if this should become the general custom — and indeed BI may steer us in that direction — but there is a long way to go yet.

Child poverty

In the meantime, is there any need to cite figures to show that the present market system tends to separate mothers from their children — or else relegate both to poverty? The nature of the market is to get work done for less money. In the United States women who work full-time earn only 66 cents to the man's dollar — the higher they advance, the larger the wage gap. In one US survey, in reply to the question who suffers most when women combine marriage and a family with a successful career, 42% said it was the children. And if the marriage goes, women and their children were estimated to suffer a 72% drop in their living standards.

In Britain lone-parent families are reported to be the poorest group. In my own country, Ireland, where there is no divorce, only 13% of maintenance orders are fully paid up, and the sums awarded for maintenance are pitifully small. Moreover there is more to this than the mere feminisation of poverty.

My purpose is to underline the privation of children, who are penalised by the market whether their mothers are relative winners or losers. Those divorced women whose incomes drop by 72% may have more time to attend to their children, but that they are cheerful and relaxed seems unlikely. If the child is to develop 'basic trust' through its relationship with its mother, it is surely required that the mother herself should feel sufficient security in her own ability to provide for the child — whether on her own or jointly with the father. Those who have considered Basic Income recognise that an unconditional, individual grant is the most practical solution.

Development needs of very young children

On its own, 'basic trust' is not enough. During this century there has been increasing research into the personal and cognitive development of very young children. The contribution of Dr Maria Montessori to this research is well known. And there are many others. For example, in the sixties Professor J. McVicar of Illinois University argued that very early cognitive encouragement by mothers was the only way out of the cycle of poverty. In the seventies, the Harvard Pre-School project reported that the most significant element in a child's development was the responsiveness of the carer — generally the mother — between the ages of 10 months and 18 months.

From an especially pleasing project organised by Barbara Tizard (Professor of Education at the University of London), we see unselected, very modesly educated mothers showing a high degree of spontaneous competence. Tizard's project taped and compared long periods of conversation between four-year-old girls at home and in nursery school:

> We realised how much they revealed the young child as a persistent and logical thinker. These were not the illogical and whimsical characters suggested by, for example, the theories of Jean Piaget; they were powerful and determined thinkers in their own right. Their limitations seemed to be due far more to lack of knowledge and faulty assumptions than to any childish illogicality.
>
> When we came to analyse the conversations between these same children and their nursery teachers, we could not avoid being disappointed. The children were certainly happy at school, for much of their time absorbed in play ... The richness, depth and variety which characterised the home conversations were sadly missing. So was the sense of intellectual struggle, and of the real attempts to communicate being made on both sides.
> (Introduction to: *Young Children Learning, Talking and Thinking, at Home and at School,* Barbara Tizard and Martin Hughes, Fontana Paperback, 1984.)

A more famous name is that of Dr Benjamin Spock, author of *Baby and Child Care,* and now aged 87. Interviewed last July, he said that if mothers understood the importance of a child's first few years, they would maybe postpone going to work until their children were a bit older.

The effects of advertising

I have laid the blame for increasing separation of mothers from young children on the market, as we know it. Living costs combine to require two incomes for what, by current standards, is quite a modest family life style. Current standards, of course, are not unrelated to advertising, nor is advertising something quite distinct from the market.

Passing through Paris, I bought a magazine called *Enfants.* Splashed across the cover was the headlilne: *Crèches. Les bébés en colère.* But reading it I found no mention of how the babies were feeling — it was the mothers who were angry, because of the lack of state-provided child care. So I counted the pages in that magazine, of which there were 178 in all, with 106 devoted to glossy advertisements, and most of the rest encouraging readers to buy something.

No life for a baby

Until the advent of modern contraceptive techniques, the hidden hand of the Market discarded babies as externalities whenever 'hands' were not urgently required — a fact correctly recognised by Malthus. Take Florence as an example. At the time of Lorenzo de Medici, when the Market would seem to have been functioning especially well, the famous foundling hospital of Santa Maria degli Innocenti was accepting 900 babies each year. It had been built in 1445. At about that time, in another foundling hospital (Santa Maria de San Gallo), only 32% of babies survived until the age of five. Move on to the early nineteenth century, and we still find that 43% of all baptised babies in Florence were abandoned.

Florence was no exception. In a recently published book, *The Kindness of Strangers,* James Boswell recounts how children were abandoned from late antiquity to the Renaissance.[4] Foundling hospitals were not set up to solve the problem of babies born to unmarried mothers. It seems that the custom of exposing unaffordable children continued from classical times for several centuries: the babies were left in public places, where there was a reasonable possibility that they would be taken to be brought up as slaves, or even adopted. Later the monasteries and convents became available as repositories, until gradually these found themselves with too high a proportion of monks and nuns who had not chosen to enter — having been simply left on the doorstep — a problem that did not arise in foundling hospitals.

Now all has changed. Infertile couples search in vain for babies to adopt. Despite unemployment, there are forecasts of future labour shortages, especially of skilled labour. With all the knowledge that has been accumulated about early development, one would suppose that the community would make every effort to provide existing babies with what they need. Instead of gathering them into crèches and nurseries, they would concentrate on the welfare of the parent-child unit.

But not a bit of it! It is enough to be out and about at seven in the morning and meet mothers wheeling their babies to be minded while mother works at something else to be convinced that our system is disastrously wrong. Baby has had to be roused from sleep, be changed and dressed and fed in a hurry — to be collected at some time or other by a tired mother who then has to organise everything for the following morning's rush, as well as look after her husband.

This is no life for a baby.

Babies are enjoyable

A Basic Income paid unconditionally to every member of society would banish the need for such excursions. It would also, as Keith Roberts has explained[5], make possible a genuine market economy. One reason it is not available is that politicians, bankers, philosophers, economists fail to recognise that babies are people — with a natural right to their mother's company.

I also suspect that lurking somewhere there is a fear of allowing women to become too independent. Unfortunately, as in that French magazine, women who claim to be campaigning on behalf of women are the very ones who frequently demand more (subsidised) child care. They, too, are forgetting that babies are people — people who prefer their own mothers. Galbraith has well said that, since the supply of servants dried up, middle class wives have been enlisted as surrogate servants. The women who campaign for crèches want servants; they want minders to take on the work of child care. But who will liberate the minders? In the U.S. they are paid less than car park attendants. The mothers claim that an hour or so of 'quality time' is an adequate maternal contribution, but some of the best quality time is that spent learning by watching or sharing in adult work, while the right moments for instruction are unpredictable.

To me it seems clear that with BI young people would feel a new confidence in themselves as independent citizens, without the need to rush into parenthood, to capture a partner, or to prove that they are grown up. Within marriage a woman with her own income need never feel the shock of dependence. Cooperation in child care, between parents and between families, would be made very much easier than it is now.

This might be welcomed even by the mothers who demand creches. Many work because they need money and don't know of an alternative. A paper from Finland, presented at the BIEN conference in Florence, mentioned a desperate shortage of recruits for the 'caring professions'. When the mothers were given the option of an allowance instead of free child care, 60% chose that option. Babies are, after all, enjoyable.

Maire Mullarney is a free-lance journalist and writer, and mother of eleven children. Her published books include: ***Anything School Can Do, You Can Do Better*** *(Arlen House and Marion Boyars, 1983, reprinted in Fontana paperback), and* ***Early Reading*** *(Poolbeg, 1990). She is a founder member of Reform (against corporal punishment in school); the Irish Family Planning Association; Language Freedom Movement; Esperanto-Asocio de Irlando; and the Irish Green Party, Comhaontas Glas. She joined BIRG at one of its first meetings.*

References

1. Locke, John, *Of Civil Government (1690)*, Cassel, London, 1905.
2. Morgan, Elaine, *The Descent of Woman*, Souvenir, London, 1972.
3. Eibl-Eibesfeldt, I., *Love and Hate*, Methuen, 1971.
4. Boswell, James, *The Kindness of Strangers: The Abandonment of Children in Western Europe from Late Antiquity to the Renaissance*, Pantheon, New York, 1989.
5. Roberts, Keith, *Automation, Unemployment and the Distribution of Income*, European Centre for Work and Society, Maastricht, Netherlands, 1983.

BIRG forthcoming events 1991

ANNUAL CONFERENCE

Friday 12th July, 10.30am — 4.30 pm, one-day conference at TOYNBEE HALL, 28 Commercial Street, London E1. Further details will be circulated to BIRG members. Or please contact BIRG direct at:

102 Pepys Road, London SE1 5SG
Telephone: 071-639 9838

BIRG NORTH-WEST

Saturday 27th April, 9.30am — 12.30pm, workshop at Wythenshawe Friends' Meeting House in Manchester, to discuss BIRG NORTH-WEST activities during 1991.

Saturday 26th October, as above the review progress.

DIOCESE OF SHREWSBURY

Saturday 16th March, *JUSTICE AND PEACE* conference at St Thomaas More School in Crewe will include a talk by Kevin Donnelly on the *Theological Justification for Basic Income.*

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