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BULLETIN

BASIC INCOME RESEARCH GROUP

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BIRG

IMPLICATIONS
OF BASIC
INCOME FOR
PEOPLE WITH
DISABILITIES

BIRG

BIRG REPORT BACK
CONFERENCE

BIRG

AN INCOME & WORK
GUARANTEE?

DIDC

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 paid automatically to each and every man, woman and child.

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

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

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APPEAL FOR SPONSORS

In earlier editions of the Bulletin we appealed for support from all organisations and individuals who share our belief that there must be far-reaching changes in social security and personal taxation. Hundreds of individuals and voluntary organisations have become BIRG subscribers. If you are not on our mailing list, we hope that you will consider joining us by completing and returning the form on page 31. A subscription entitles you to two bulletins and free entry to BIRG's seminars. Subscribers are not committing themselves to support a Basic Income. Rather, they are committing themselves to encouraging informed debate about the desirability and feasibility of reform along these lines.

THE BASIC INCOME RESEARCH GROUP was set up in 1984, under the auspices of the National Council for Voluntary Organisations, to research all aspects of reform along the lines of a basic income. In 1986 it affiliated to the **BASIC INCOME EUROPEAN NETWORK (BIEN)**, which it helped to found. BIRG is at present seeking charitable status as an independent trust.

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

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CONTENTS

EDITORIAL	Page 1
WHAT ARE BASIC INCOMES?	
Bill Jordan	Page 3
ARE BASIC INCOMES FEASIBLE?	
Hermione Parker	Page 5
ALTERNATIVES TO BASIC INCOME	
Fran Bennett	Page 8
THE IMPLICATIONS OF BI FOR PEOPLE WITH DISABILITIES	
BIRG Disability Working Group	Page 10
BACK TO BASICS: A PLAN FOR SIMPLE PENSIONS	
Philip Chappell	Page 20
REMOVAL OF PRIVATE PENSION TAX RELIEFS: VIEWPOINT FROM AN ACTUARY	
Geraldine Kaye	Page 22
MUTUAL RESPONSIBILITY	
Malcolm Torry	Page 25
AT HOME AND ABROAD	
<i>BIRG REPORT BACK CONFERENCE</i>	Page 26
<i>AMA PROPOSE A GUARANTEED HOUSING ALLOWANCE</i>	Page 26
<i>INTERNATIONAL WORKSHOP IN BRUSSELS</i>	Page 26
<i>WORKSHOP ON BASIC INCOME IN THE NETHERLANDS</i>	Page 27
<i>BASIC INCOME INITIATIVES IN THE EUROPEAN PARLIAMENT</i>	Page 27
<i>ASSOCIATION DES CHOMEURS ET DES PRÉCAIRES, PARIS</i>	Page 27
VIEWPOINT	
TOWARDS AN INCOME AND WORK GUARANTEE	
Peter Ashbey	Page 28
BOOKS RECEIVED	Page 30
CALENDAR 1988	Inside back cover

Editorial

BIRG Bulletin No. 7 comes out at a time of mounting concern about the future of the welfare state. In his Budget the Chancellor cut taxes by £6,000 million, but could not find the £120 million necessary to maintain the value of child benefit. Child benefit, like family allowance before it, has never represented more than a small part of the costs of bringing up a child. For most parents good quality, easily accessible health care is at least as important. But today even the National Health Service is in danger of collapse.

We apologise for the long delay since publication of Bulletin No 6, and we emphasise BIRG's continuing need for subscriptions. With your support, it remains BIRG policy to publish each Spring and Autumn, and to link in with the Basic Income European Network (BIEN), by including articles and news items from as many countries as possible. In the next issue we hope to publish papers from the BIEN conference in Antwerp in September. In this issue we start with three papers delivered at BIRG's Report Back Conference in April 1987. Those papers — by Bill Jordan, Hermione Parker and Fran Bennett — explain what basic incomes would involve and raise some of the main issues.

What makes basic income so revolutionary? Without doubt it is the idea of benefit based on citizenship, without a work test. The feeling that no able-bodied person should get anything from the state unless he or she is prepared to work for it is an integral part of Western culture, but it is also the source of much confusion. Advocates of basic income are sometimes accused of trying to undermine the work ethic, whereas all they are really trying to do is to bring it into line with economic, social and technological change.

Ask any group of people what exactly they mean by work, and they will always hesitate. Do they mean **paid work** with a market value — the sort traditionally reserved for men? Do they mean **unpaid work** with no market value but a high social value — the sort traditionally reserved for women? Or do they mean **make-work**, like digging holes in the road, which has neither a market nor a social value, but which is hugely valuable politically, because it reduces the number of registered unemployed.

Asking such questions is useful if it forces people to think things through for themselves, and to take a fresh look at the world around them. For unless society can accept a new definition of work, and can re-assess the intrinsic (as opposed to market) value of different sorts of work, there is a real danger of mounting unemployment in the paid labour market, alongside a mounting pile of unmet needs in homes and communities throughout the country.

Three factors are contributing to this situation. The first is automation, which reduces the demand for unskilled and semi-skilled labour. The second is women's increasing participation in paid work, which intensifies the job shortage. The third is longer life expectancy, as a result of which there is a growing, but largely ineffective, demand for unpaid and lower paid work of the sort that nobody wants to do.

One way to square this vicious circle is for society to recognise the value of unpaid work by breaking the link between social security and labour market status. Abolish the contribution record and the work test, give everyone basic income security, and allow a new division of labour between paid and unpaid work to emerge. That is the basic income solution.

The increasingly favoured alternative is for governments to provide make-work schemes, the main purpose of which is to identify and disqualify from benefit those on the unemployment register "who do not really want to work". This tidies up the unemployment statistics, but leaves the underlying imbalance unchanged. Above all there is still no mechanism for encouraging people (men or women) into the caring professions, into unpaid care in the home, and into unpaid work in their local communities.

Basic income would cut the link between social security and paid work by providing every citizen with a guaranteed income regardless of whether they were, or had been in, the paid labour market. For those with no income of their own the BI is a cash benefit, for others it is a credit against tax. So the person who is unable to earn a living (for whatever reason) always has something to fall back on, and the person in paid work can use the BI as an offset against tax.

Is it feasible? After more than three years of research, Hermione Parker argues that a full basic income (enough to live on) is not feasible, but that a partial basic income, with BI supplements for elderly people and people with disabilities, and with an income-tested housing benefit for the unemployed and lower paid, would be feasible. And she puts forward a costed plan for phase 1 of a move to partial basic incomes. Since last month's give-away Budget there can be no question about the broad feasibility of that plan. The impediments are political, not economic.

Those who stand to gain most from a switch to basic income are people with disabilities, which is why we devote so much space to the paper, prepared after a series of meetings in 1986 and 1987, by BIRG's disability working group. The group left many problems unresolved, and the paper is published as a contribution to the debate, not a set of recommendations.

Since publication of Bulletin No. 6 Mr Norman Fowler's social security reforms have been introduced, and the Bill to introduce a new community charge or poll tax is on its way through Parliament. We hope you will enjoy this Bulletin, we draw your attention to the BIRG calendar on the inside back cover, and we leave you with one final thought:

If every citizen must pay a community charge or poll tax, why should not every citizen receive a basic income or negative poll tax?

What are basic incomes?

Bill Jordan

For nearly three years the Basic Income Research Group has been investigating the desirability and feasibility of unifying the income tax and social security systems in such a way as to give everyone a guaranteed income, enough to protect them from poverty. This paper explains what basic incomes are, and why we thought it important to investigate them.

Basic Income defined: four main criteria.

BIRG's first task was to define a basic income scheme, and then to decide what criteria should be used to compare the advantages and disadvantages of rival tax-benefit schemes. BIRG's constitution uses the following definition:

A Basic Income scheme would aim to guarantee to each man, woman and child the unconditional right to an independent income sufficient to meet basic living costs. Its main purpose would be the prevention of poverty, as opposed to mere poverty relief.

BIRG's Research Panel then selected the following four criteria:

Adequacy — Simplicity — Equity — Economic efficiency

Adequacy means a guaranteed living standard sufficient to prevent poverty, and easily accessible. Complex claiming procedures and delays should be avoided. The amount guaranteed should be related to the goods and services regularly consumed by individuals in the society in which we live.

Simplicity is essential. In the ideal system, the need for detailed individual assessments would be minimal. It should be able to be automated without inviting fraud or abuse. It should also avoid unnecessary restrictions and regulations.

Equity means a system that treats everybody as independent, equal citizens. Men and women, married and single, should all be treated alike. This does not mean that they should all receive the same BI. Some people would need more money and some less to achieve an *equivalent*, basic living standard. For instance, an adult needs more than a child, and an old or disabled person needs more than someone who is able-bodied.

Economic efficiency presupposes a system that does not discourage work or encourage tax avoidance. If people's potential contribution to the economy is to be realised, there must also be sufficient rewards for work and saving to provide incentives.

A new solution: but the objectives are those of Beveridge.

Our present system fails dismally on all four counts. It is nevertheless important to recognise that the Beveridge Plan, on which the social security system is based, was an honest attempt to achieve those very objectives, albeit in the social and economic conditions of the 1940s. What BI tries to achieve is a new way of meeting the same objectives, in radically changed circumstances.

(1) Poverty prevention. In the modern, radically restructured labour market, poverty prevention cannot be achieved through a system that links benefit entitlement to the earnings of male breadwinners. We are not going to have a return to full, male employment, in full-time jobs. Even if we were, it would not provide for the income needs of households as diverse as ours are today. The advantage of BI is that it enables the economy to benefit from a more flexible use of labour (including part-time work) but gives people income security. While meeting the needs of single-earner and single-person households, it encourages work-sharing and economic participation by all. Low-earning couples with children (now the chief constituent group among the poor) are the main potential gainers from BI.

(2) Equity. In today's society the tax benefit system should treat men and women as independent individuals and equals, irrespective of their marital status. It should also make standard allowances for the extra costs associated with disability, irrespective of whether those disabilities result from war, occupational accident, sickness or any other cause.

(3) Simplicity. Detailed, individual assessments are necessarily complex, they cause delays and they discourage people from claiming. Beveridge thought he could reduce them to a minimum. In practice they have grown and grown, until ours is one of the most means-tested systems in Western Europe.

(4) Economic efficiency. The unintended consequences of the tax and benefit systems, notably the unemployment and poverty traps, are now well recognised, and, despite all that is said to the contrary, are getting worse. BI would reduce them to a minimum, by providing everyone, including part-time and unskilled workers, with incentives to work, train and save.

What makes Basic Income so revolutionary?

If the objectives of Basic Income are much the same as Beveridge's, why is it regarded as such a revolutionary and risky idea? Is it because it challenges traditional views of the relationship between the social rights of citizenship and the responsibilities of the individual?

The reassuring thing about social insurance, as a principle, was that it linked a new view of social rights with a traditional responsibility. Everyone had a right to a minimum income that was **supposed** to be enough to prevent poverty, but they only had it on condition that the male breadwinner earned enough for himself and his "dependents" during his working life. New rights and

traditional responsibilities were thus linked by the insurance principle, a convenient fiction from the start, and now a transparent fantasy.

Basic income makes the right to a guaranteed minimum **unconditional**, and it bases that right on the individual, not the family. Consequently it seems to cut the link between citizenship rights and social responsibilities. It seems to let everyone be a free rider on the state, with no responsibilities either to the collective whole, or to each other as individuals. If that were the case, BI would have lost much of the moral force of the Beveridge scheme, which seemed to reconcile the rights of citizenship with participation and responsibility.

This raises issues which require further investigation. My own personal view is that we now have a more enlightened and more accurate view of social and interpersonal responsibilities than we had in the past. The return of mass, long-term unemployment, and other labour market changes, remind us that employment represents very much more than a source of income in our society. It is also the main means of social participation. That should also remind us of the groups traditionally excluded from employment, of the social penalties attached to this exclusion, and of the low status given to work that is unpaid, such as care-giving and domestic tasks.

At present we are seeing two contradictory and paradoxical processes at work in our society. On the one hand, a combination of global economic forces and a rigid structure of wages and benefits is excluding a large proportion of people from the labour market. On the other hand, a growing number of elderly and disabled people, and new policies for community care, place increasing burdens on unpaid family carers. So we have both enforced idleness and enforced unpaid toil side by side.

One mechanism by which the government tries to tackle both these problems is through the Special Employment Measures of the Manpower Services Commission. For example, over 60,000 (mainly young) people are engaged in low-paid Community Programme projects in health and social care, principally with old and disabled people. During a recent study I found that the largest of these are ludicrously badly organised, and quite irrelevant to the needs of most handicapped people and their carers.

Another MSC measure, the Youth Training Scheme, is soon effectively to be made compulsory, when young people who refuse to take up training are denied benefits. It looks as though these programmes will be the means for introducing *welfare* in Britain — enforced work or training as a condition for receiving state income maintenance.

There is little evidence that people want to avoid their responsibilities to do paid work or care for family members — on the contrary, people want jobs, and are willing to care for their own, with proper support. BI aims to give people more opportunities, better incentives and a wide range of choices to do both paid and unpaid work. For example, elderly and disabled people with a BI should be able to finance a continuation of paid and unpaid care, and carers should be able to share the caring role within the household, and do paid work outside the home. Young people with a BI should be able to continue part-time jobs, training courses and voluntary work.

If BI forces us to re-evaluate the relationship between paid and unpaid work, and the roles of those who do these tasks, then it will also force us to look again at our responsibilities to each other in the household, and how we divide them up. The result, I hope, will be a new view of employment, and a new distinction between paid and unpaid work. Instead of seeing paid work as both a duty and a right of one group (able-bodied men), and unpaid work as the duty of another group (married women), with the rest without clear rights or duties, we will see it as our responsibility to share paid and unpaid work more fairly between all.

BI could help bring this process about.

Are Basic Incomes Feasible?

Hermione Parker

Life is full of good ideas that never see the light of day, because they are not practicable. In my view full BI falls into that category, but a partial BI scheme linked to a reformed housing benefit and improved local cash and care services would be feasible.

For this purpose a full BI can be defined in general terms as one that is sufficient to permit the abolition of all existing cash benefits, without people on low incomes losing out. More specifically full BI can be defined as equal to one third of the average earnings of all full-time adult men and women. In 1985-86, which is the latest year for which UK costing estimates are available, a full BI defined in those terms would have been about £60 a week.

1. Full BI: economic feasibility

The gross cost of any particular set of BIs can be calculated by multiplying the proposed weekly rates by 52, and by the numbers of people affected. Taking £60 a week as the reference point, and child equivalence ratios derived from Beveridge the full BIs work out as follows:

	£pw
Each adult, from age 18:	60.00
Each child, aged 0-4:	20.00
5-10:	25.00
11-15:	32.00
Each youth, aged 16-17:	44.00

These rates may seem high, but we are talking about adequacy, not subsistence. In addition there needs to be a disability costs allowance, which is assumed to cost £4,200 million, in line with the estimates of the Disability Alliance.¹ Total programme cost is £159,000 million.

When estimating the tax rate necessary to finance those BIs the main difficulty is to estimate the new income tax base. For 1985-86 this is thought to vary between £190,000 million and £240,000 million, depending on how much money the Inland Revenue can lay its hands on. The exact amount depends on how many of the non-personal income tax reliefs can be abolished, the effects on wages and salaries if they were abolished, and the administrative difficulties involved in taxing all income from the first £. By no means all the revenues from income tax and NI contributions are at present used for cash benefits, and this too must be taken into account.

After allowing for savings in existing expenditure (including abolition of the state earnings related pension (SERPS) and statutory sick pay) the estimated tax rate necessary to finance the full BIs, assuming no behavioural changes, works out at between 70 and 85

percent, depending on the extent to which the non-personal IT reliefs can be abolished. NI contribution is unified with the new income tax.

This is a very high tax rate, and it is no good hoping that the problem will be resolved by economic growth, because economic growth leads to higher expectations, and in any case a tax rate of even 70 percent is more likely to produce economic decline.

2. Full BI: administrative feasibility

The administrative simplicity of a full BI scheme is one of its most attractive features. With a system of age-related, individualised BIs, a flat rate of tax on all other income and computerisation, it should be relatively easy to integrate the whole of the tax and benefit systems, using the same assessment units, a single definition of income and the same accounting period both below and above the break-even levels.

The *break-even level* is the income level at which people neither receive net benefit nor pay net tax. Assuming, for the sake of simplicity, a BI of £50 and a 50 percent tax rate, then the break-even level is £100, because a person earning £100 a week pays £50 in tax and receives £50 BI. If the system is to be integrated then the regulations must be the same above and below that point.

With the existing system, and with most negative income tax (NIT) proposals, the regulations applied to people receiving net benefit are different to the regulations applied to people paying net tax. The assessment unit below the break-even point is nearly always the family, but for tax purposes it is often the individual. The definition of income is also different. It is much wider for benefit purposes than for tax. And the accounting period is also different. It is partly because of these differences that there are so many anomalies in the existing system. NIT would almost certainly be as bad, as would the systems recommended by the Institute for Fiscal Studies² and the SDP³.

With a full BI scheme the regulations above and below the break-even levels can be completely harmonised. Even with a partial BI system there need not be administrative problems, so long as the BI component is kept separate from the remaining means-tested parts of the system. This point needs emphasising, because the SDP basic benefit proposals, and even the Liberal Party tax-credit proposals, present enormous administrative problems. It is not possible to chop and change between assessment units. If you want integration, then everybody must be subject to the same ground rules, all the time. Moreover with means-tested or income-tested benefits computers cannot replace case officers. It is not enough simply to throw money at people. The system has to be policed and action has to be taken to help people who are poor regain their economic independence.

3. Full BI: political feasibility

The biggest question mark over any proposals for radical reform of tax and social security is political. To some extent the opposition is party political, although the

opposition to universal benefits, especially unconditional benefits, cuts across the party political divides. Overwhelmingly it is the alliance of gut feelings with entrenched interests which would kill any move towards a full BI, especially the interests of those whose livelihoods depend on continuance of the present system. Take a few examples:

(1) Civil service and local government staff. With a full BI the whole of the social security functions of the DHSS, the DES (student grants), the DE (MSC allowances) and the local authorities (housing benefit) would cease to be necessary. For my costings I estimated savings of about £3,000 million on administration – equal to nearly £6 a week extra on child benefit. But what would the people whose jobs are affected say to that? With a partial BI the staff reduction would be less severe. But clearly any BI system would have to be introduced very slowly and carefully.

(2) The pension funds. Withdrawal of private pension tax reliefs would be to the pension fund managers like the dissolution of the monasteries to the mediaeval church. Chancellor Nigel Lawson dallied with it and dropped it like a hot potato. Yet the rate of tax necessary to fund either full or partial BI depends crucially on widening the tax base. I estimate that pension tax reliefs (including tax-free employer's contributions) reduced the tax base in 1985-86 by around £30,000 million.

(3) Mortgage interest tax relief. If mortgage tax relief were removed, it would be relatively easy to soften the blow for people with existing mortgages. But what of the estate agents and solicitors who make millions out of escalating house prices?

(4) Gainers and losers. Nobody should under-estimate the redistributive consequences of BI, both within families and between them. The uproar caused by child benefit, which transferred a minuscule amount from father's wallet to mother's purse, is as nothing compared with BI. Using LSE's TAX MOD computer programme, Professor AB Atkinson and Holly Sutherland estimated that fewer than 2 million out of 14.7 million working tax units would have been within £1 a week (either way) of their 1980 net weekly incomes as a result of Philip Vince's very restrained partial BI proposals for the Liberal Party.⁴

4. A partial BI could be feasible

In order to be politically acceptable a partial basic income (PBI) would have to meet the following criteria:

- The safety net (PBI + housing benefit) must be at least as much as is currently available on income support, and preferably more, especially for certain groups.
- The system must be easily accessible, easy to operate and easy to understand.
- It must not discourage self reliance. The PBI supplements must be linked to circumstances over which individuals have little or no control. And the marginal tax rate must be kept as low as possible, certainly not more than 40 percent, preferably nearer to 35 percent.

- It must be symmetrical between men and women, married and single. Everyone must be subject to the same ground rules.

5. Basic Income 2000

BI 2000 is a modified *basic income guarantee* or *BIG* scheme, aimed at the year 2000. Every *BIG* scheme has three main components, first the tax-free, non-withdrawable BIs, second an income-tested housing benefit and third the new income tax. *BI 2000* includes an earned income tax discount, greatly increased childcare provision and tax relief for childcare costs.

(1) The Transfer Income Account (TIA)

The BI component is fully integrated with the new income tax, and takes the individual as the assessment unit. Transfer incomes are kept separate from the rest of current expenditure and from capital expenditure. You have:

- quite small age-related partial basic incomes (PBIs), which do not allow for householder or housing costs.
- PBI supplements for pensioners, people with disabilities and carers, which together with the PBI produce a full BI.
- a tax-free, non-withdrawable disability costs allowance.

This part of the system is completely unisex and (with the exception of the disability supplements) can be fully computerised, since it requires virtually no case-work.

At 1985-86 prices and incomes I estimate that the universal PBI could have been about £24 a week for adults from age 18. The amounts for children and young people aged 16-17 would be equal to the then supplementary benefit scale rates, plus passport benefits like free school meals, and a small amount for housing. The PBI supplement for pensioners could have been about £36 a week, bringing the guaranteed basic pension to £60, with no differences on account of marital status, no contribution requirement and no earnings rules. The rate of the new comprehensive income tax would be about 38 percent, assuming that mortgage interest tax relief and half the private pension tax reliefs can be phased out.

(2) Cash & Care benefits

Any householder with no income other than the PBI would be entitled to have their rent, rates and water rates paid in full, plus a householder allowance. This benefit would be withdrawn by 50 percent of increases in net income. Any person in dire need could also apply for means-tested emergency payments. This part of the system would operate through local government, using old-style case officers and social workers. Ideally the cash and care (C & C) functions of the local DHSS offices and the social services would be amalgamated. *BI 2000* allows

around £400 million annually for increased childcare provision. There could also be a work guarantee of the sort envisaged by Peter Ashby in his VIEWPOINT article. In that case housing benefit could be made conditional; but the BIs are always unconditional.

Although the new C&C departments are an integral part of *BI 2000*, the number of people in need of C&C assistance would be much smaller than the numbers receiving means-tested benefits at present. The role of the C&C departments would be a positive one. Community projects would be encouraged.

(3) The new income tax

The first tranche of earned income (about £25 a week) would be tax-free. Work-related childcare costs (for both one and two-parent families) would be tax deductible, with an upper limit. Both these changes increase work incentives and help to overcome the difficulty of collecting tax from the first £ of earnings. Assuming that earnings grow 2 percent faster than prices between 1985 and the year 2000, the rate of tax necessary to fund the scheme by the year 2000 is estimated to be about 38 percent. This tax rate allows some increase in the BIs beyond the rate of price increases between 1985 and 2000, but not as much as the earnings increase. The tax is flat rate, in order to win political acceptance for removal of the non-personal tax reliefs. It compares with income tax at 27 percent and NI contribution at 9 percent in 1987-88, and it takes into account a significant growth in the numbers of elderly people and children during the next twelve years.

6. Getting from here to there

Nothing can happen without political consensus. Having accepted that not even a partial BI system can be effected overnight, having rejected Big Bang, Parliament would have to agree a target date and a target system, and every change thereafter must move in the chosen direction. Above all there must be no changes in the wrong direction. The Chancellor must stop creating new tax reliefs, and the Secretary of State for Social Services must stop widening the gap between the amounts paid to two single people and to married couples.

BIs Phase One. A transition to *BI 2000* might start as follows. Replace all the personal income tax allowances by a PBI of £10 a week. That £10 is a fully convertible tax-credit, tax-free, non-withdrawable and unconditional. It is deducted from existing national insurance and income support entitlements. Additionally the first £20 a week of earned income becomes tax-free. The householder element implied in the income support scales (ie the difference between the amount for single people aged 25+ and half the amount for married couples) is transferred to housing benefit. The purpose of this is partly to move to unisex benefit rates and partly to be able to phase out income support (IS). IS carries earnings restrictions, housing benefit does not.

With a guaranteed £10 a week every unemployed person would be given a choice. Either stick with the PBI and new housing benefit, be free of red tape and be able to earn £20 a week tax-free, or top up your PBI with in-

come support, in which case the same earnings rules apply as before.

If only 10 percent of the unemployed chose option number one, which can be made much more attractive by simultaneous increases in child benefit, the effect would be to increase production in the regular economy, to reduce benefit expenditure and to increase the tax base. In that case Phase 2 can increase the PBIs and start the unification of NI contributions with income tax. The aim is to start a virtuous circle of growth plus reducing unemployment, instead of growth plus continuing unemployment.

7. Conclusion

A full BI, defined in terms of adequacy rather than bare subsistence, is not feasible and probably never will be. But a partial BI is feasible. It is a very hopeful way forward into the next century.

Hermione Parker is just completing a three year project into integration of the tax and benefit systems. Her book Instead of the Dole will be published at the end of this year.

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Alternatives to Basic Income: a Personal View

Fran Bennett

Caught on the hop

It could be said that the poverty lobby had been caught on the hop in the last few years by the various alternatives put forward for reform of social security.

Mr Norman Fowler's review stimulated a variety of groups and individuals to put forward alternatives. The Institute for Fiscal Studies (IFS) concentrated on one of the topics hitherto regarded as the poverty lobby's *forte* — that is to say the stigma, complexity and take-up problems associated with means-tested benefits. But the IFS's solution was quite different to that put forward by the poverty lobby pressure groups, because it was concerned largely with administration, and because it recommended an extension of means-testing, rather than limiting it to as small a group as possible.

In arguing the case for BI the Basic Income Research Group (BIRG) again concentrated on an area the poverty lobby used to consider its own — namely the attraction of universal benefits that give everyone a stake in the welfare state. BIRG's work has helped clarify some of the vexed problems to do with the benefit unit and with the effects of earnings rules on part-time work and benefits. BIRG's solution was quite the opposite of that of the IFS. BIRG recommended unconditional benefits for everyone.

Meanwhile the traditionalists, including in particular the trade unions, plugged away at the Beveridge system (or at least a revised version of it), partly because their research showed that people value most and defend most strongly those benefits which they have earned as a right, in return for contributions.

Those are just some of the alternatives to the current social security system. To them I want to add the *Beyond Beveridge* suggestions so far preferred by the Child Poverty Action Group (CPAG) as its long-term goal for the benefits system. Everyone agrees that the current system is in a mess. Most people, especially those working closely with poor families, would argue that it is means-tested benefits which have contributed most to that mess, and are therefore unlikely to contribute to a solution, even if rationalised under Mr Norman Fowler's reforms. First I shall focus on the common ground between those who share this view, then I will part company on the question of whether the best answer is a BI or a *Beyond Beveridge* scheme. Finally I will look at what BI and *Beyond Beveridge* have in common, rather than concentrate on what divides them.

A quick tour around the alternative models

The alternatives to the current social security system form a *continuum*, stretching from very narrow eligibility criteria to very broad. At one extreme we have the IFS scheme, which takes means-testing to its logical conclusion, and at the other extreme we have full BI, which would be enough to live on, universal and unconditional. At this stage I will leave BI to one side, because it has been dealt with by other speakers.

The IFS scheme. This is sometimes described as a negative income tax, but it is much more like an extension of the existing system, because the regulations for income tax reliefs and benefits are not harmonised. Even the administrative integration is skin deep. People above and below the benefit entitlement ceilings are treated quite differently, even different benefit claimants are treated differently.

The IFS builds on the worst elements of the current benefits system, rather than the best. It is most unlikely that their scheme would be able to deal with the fluctuating circumstances of low paid and part-time workers. Moreover it limits the functions of the social security system to the over-riding and narrow goal of **poverty relief**, and it excludes other important aims such as poverty prevention, or horizontal or life-cycle redistribution.

The IFS viewpoint nevertheless presents us with a real political dilemma. The IFS argues that universal benefits remain low in value because they are so expensive, and that the poor would be better served by benefits limited to them, because the cost of raising them to a decent level is so much lower. We (and BIRG) would argue to the contrary that it is universal benefits which are easier to defend, in terms of their existence and their value. It may be that neither argument is correct all the time. The truth may depend on what benefits are being discussed, and what contingency they cover. But it is a difference of opinion we cannot ignore.

The Beveridge approach. Those who support the Beveridge approach argue for the improvement of child benefit and national insurance (NI) benefits, in order to reduce dependence on supplementary benefit (SB). The difficulty is that this would still leave large numbers of people on SB — either because they did not meet the contribution conditions for NI benefits or because they had run out of entitlement. NI benefits tend to reflect inequalities in the labour market, partly because of the contribution test, partly also because they are related to former earnings, and partly because of the relationship of disability benefits to the cause of disability.

Despite a rather vague statement about relaxing contribution tests, it is not clear from the Labour Party's latest policy statements whether it is going to stay loyal to the narrow Beveridge-based approach or not.

Beyond Beveridge¹. This is the approach that CPAG prefers, because it builds on the best elements of the current system. Contribution tests are phased out. Instead benefits would be universal but, unlike BI, they would **not** be unconditional. They would no longer depend on contribution record but they would be limited to recognised contingencies, like sickness, old age,

unemployment, and the care of children or other dependents in certain circumstances. Benefit levels would have to be adequate, and the new system would also involve higher child benefits, the introduction of a statutory minimum wage and a more progressive tax system.

Basic income and Beyond Beveridge: Differences

Overall the *Beyond Beveridge* approach has more in common with BI than with the other alternatives. The main difference between them lies in the relationship of the benefits system to the labour market. Under a BI scheme those out of work would not have to sign on and be available for work. The 'status' of unemployment would therefore be abolished, though of course not the reality. Likewise people who were sick would not have to send in sick notes.

These are not objectives to which CPAG would object in principle. The debate is much more about practicalities. Is it really likely that governments will ever allow able-bodied citizens to sit around and collect an income that is enough to live on, without any obligation to work? In Quebec a BI scheme was tried, and it was the unpopularity of this aspect which in the end caused the experiment to collapse. Whilst the absurdity of the availability for work rule is obvious at a time of mass unemployment, getting rid of it may not be so easy as it looks.

Peter Ashby's argument (VIEWPOINT) is in a way the obverse of this. He seems to be saying that BI would increase the amount of work undertaken by the unemployed, on the grounds that it is the ridiculous earnings rules applied to benefits at present that largely prevent the unemployed from doing part-time work in the formal economy. And he also says there would be an 'accelerator' effect, so that the number of employment opportunities would be increased overall. I am not an economist, but I am not persuaded that this would follow as night follows day.

This doubt becomes crucial if we are talking about partial BIs instead of a full BI. For if the partial BI on its own is not enough to live on, then employment opportunities for all are essential. Without the guarantee of paid work all BIRG would have achieved for the unemployed would be the right to exist on a lower income than at present, without having to sign on for it. Groups like CPAG would not regard this as a great improvement on the current situation, because we believe that inadequate benefit levels are a central factor in the problems faced by the unemployed.

The other debate around BI concerns those in paid work. Under a full BI scheme, everyone in paid work gets a subsistence income from the State — they are paid to exist. Yet the definition of what constitutes a subsistence income depends on who is discussing it. It could be the same as, or even less than, current benefit levels.

The debate here, from a poverty lobby standpoint, centres first on incentives and then on the relationship between capital and labour. Those most sensitive to changed work incentives would be married women, and the

question arises whether a BI scheme would provide an inducement to women to stay at home. Secondly, what would be the effect on wages if everyone in work got a subsistence income? Would wages fall, as some BI advocates say they must if Britain is to be internationally competitive? If wages did fall would the BI amount to anything more than an indiscriminate subsidy for low-paying employers, and is that what we really want?

What would be the effect of BI on the power relationship between employees and employers? Would employees gain or lose strength if the employer knew that they could exist without any wages at all? The answer to this question is far from clear. But the fact that it has to be asked may lead to suspicion from the trades unions, and any such suspicion must be overcome if they are to be persuaded to back BI.

The last group affected by BI are those doing unpaid work, like carers. I personally would not include housewives in this group, as housework is something we all have to do, whether we live alone or with someone else. It is not clear to me whether under a BI scheme carers would get something extra on top of their BI. There seem to be differences of opinion about this, and it is certainly a difficult question. On the one hand it can be argued that since their access to the labour market is reduced, they need/deserve compensation. On the other hand it can be argued that it would be better to share out the caring itself more fairly. To give "carers" a carer's supplementary income would confirm them in that role. Hence it could lead to *role-trapping*, particularly of women.

Basic income and Beyond Beveridge: Common cause

Despite these differences, there are also many areas of agreement between a *Beyond Beveridge* approach and at least the partial BI schemes discussed here today. BI offers fewer categories of claimants and fewer entitlement regulations. There is throughout a strong bias against means-testing. Those in and out of paid employment are treated similarly, and for part-time workers the system would be simple and satisfactory, with no earnings rules.

It is interesting that the more work that is done on the BI concept, the wider the agreement seems to become that a pure BI scheme is not feasible (at least not for a very long time), and the more compromises are arrived at. This partly solves the problem which Tony Atkinson identified, when comparing the current system with BI. He pointed out that a system in practice is always likely to seem less advantageous than a perfect but hypothetical model.²

The modifications applied to pure BI include income-tested housing benefit, a flat-rate tax credit for earners, partly in recognition of work expenses and partly to avoid the difficulty for the Inland Revenue of collecting tax on very low incomes; and BI supplements for different groups of claimants (thus bringing back the idea of categories that pure BI theorists wanted to dispense with), for instance a possible supplement for lone parents, carers — and so on.

The *Beyond Beveridge* and partial BI approaches have both reluctantly accepted that it is impossible to devise an adequate system of support for housing costs that is not subject to a test either of income alone, or of income and wealth. Both approaches have yet to decide how best to deal with caring and home responsibilities, which is not easy either. Take child care for example. Up to what age do you suppose that child care can be said to disadvantage the carer in the paid labour market? Should we count child care as care at all, or should we limit a benefit for carers to those looking after elderly and disabled people?

Public attitudes must change first

CPAG wants to go on discussing BI, especially in the context of changes in the labour market towards more flexible and part-time working. We also believe that any changes in the benefits system should not work against the eventual introduction of BI.

Above all we believe that the most important influence on the political feasibility of a BI, apart perhaps from developments in the labour market, is public attitudes. The current emphasis on targeting, the resentment of claimants by non-claimants, and the strength of the work ethic – all are obstacles not just to the introduction of BI, but to the implementation of progressive change of whatever kind in the benefits system.

CPAG questions the feasibility of bringing about changes in society by means of technical alterations to the benefits system. We hope therefore that those who are interested in the eventual introduction of BI will start by concentrating on trying to change attitudes that blame claimants. **If a BI were introduced in a half-hearted way, without any prior change in attitudes, it could all too easily lead to a situation which replaced the signing on condition by benefits below subsistence level.**

That would discredit the whole idea of BI, as well as leaving many poor people worse off than at present. It would do no good either to the cause of BI enthusiasts, nor to the interests of the poverty lobby as a whole. The only way to avoid this fate is if we all give greater priority to changing public attitudes than to the technical differences between us.

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References

1. *There is an Alternative*, Ruth Lister, CPAG 1987. Available from: CPAG (Pubs), 4th Floor, 1-5 Bath Street, London EC1Y 9PY. Price 50 pence including p & p, cheques/POs payable to CPAG Ltd.
2. *The long-term reform of social security*, AB Atkinson in *Poverty No. 59* (Winter 1984-85), CPAG journal, page 37.

Implications of Basic Income for People with Disabilities

The following discussion paper is the outcome of consultations by the Basic Income Research Group's working group on disability incomes during 1986 and early 1987. It examines ways in which a move away from the existing dual system of social security benefits and income tax reliefs, in favour of a new integrated system of guaranteed basic incomes, might help to raise the living standards and promote the financial independence of people with disabilities and those who care for them. The existing patchwork of social security benefits relies mainly on benefits paid as compensation for loss or interruption of earnings, and puts a heavy emphasis on contribution record and/or means-testing. Consequently, and despite the welcome introduction during recent years of new benefits like mobility allowance, attendance allowance and severe disability allowance, the majority of people with disabilities still do not receive anything to cover the extra costs incurred as a result of being disabled. By contrast basic income would be paid as of right to every citizen, and would include a disability costs allowance. Although the paper mentions the need for local cash and care services, it is primarily concerned with the financial needs of people with disabilities.

1. The need for change

For over twenty years there have been increasing but so far largely unsuccessful pressures for the inclusion of a comprehensive disability income as part of the social security system. The emphasis is not just on increasing the incomes of people with disabilities, but on changing the entitlement conditions and methods of assessment, and on helping to integrate people with disabilities into the world of work. For the object of providing disability benefits is not simply to prevent insured workers from falling into poverty, but to ensure that there is an effective safety net for **all** people with disabilities, and also, insofar as is humanly possible, to give people with disabilities a chance to build, or re-build, their lives without constant outside interference.

In this context it is worth remembering that social insurance was originally devised as a means of protecting the incomes of regular workers during interruption or loss of earnings. By definition therefore, it has always excluded anyone who as a result of congenital or other disability was unable to build up the necessary contribution record. Likewise it has always excluded carers, although in Britain married women have been entitled to adult dependency additions, through the contributions of their husbands.

Gradually some of the gaps in social insurance legislation have been filled in on an *ad hoc* basis, but benefit entitlement still depends more on contribution record, work status and origin or cause of disability than on

systematic assessment of the widely differing needs and costs of claimants. Often it depends also on an income or means test. And with both insurance and means-tested benefit the emphasis on contribution record and work status, as opposed to basic needs and the extra needs of people with disabilities, has resulted both in an under-estimate of the benefits necessary to provide the same **equivalent** safety net for all, and in unpopular and often counter-productive earnings rules.

In this paper we examine some of the issues, and we put forward a series of options for change. The exercise was conducted as part of a wider programme of secondary research by the Basic Income Research Group (BIRG) in order to find out the effects of a move toward basic incomes on different client groups. The working group was already nearing the end of its discussions when the Disability Alliance (DA) reached agreement on its own set of proposals for a comprehensive disability income scheme¹, but the differences between us are not substantial. In reaching our conclusions we also took account of recommendations by the Disability Income Group (DIG)² that income support for the disabled should be based on the financial effects of disability, not its causes, and by the National Advisory Council on Employment of Disabled People, who wrote in 1986 that:

DHSS should consider as a matter of priority how benefit arrangements and their eligibility conditions might better encourage rather than discourage disabled people from seeking work. *Report of the working party on the principles underlying employment provisions for disabled people*, October 1986, para 6.29.³

To this recommendation we would add the need to involve the Treasury as well as the DHSS in any changes, since it is the overlaps between benefit and tax that do much of the damage, especially the taxation of incomes below the benefit entitlement ceilings.

The Disability Alliance objectives have much in common with the basic income approach to income maintenance, not least the view that

“...society should pay an income as of right to all people with disabilities. This income should be paid regardless of the cause, type or origin of disablement, and regardless of the age, sex, marital status or national insurance record of the person concerned. Instead it should be based on the severity of disablement” (DA 1987, page 1.)

and that

“...in addition, there should be adequate provision for carers, both to maintain the incomes of carers who are unable to undertake paid employment and to recognise the costs and restrictions involved in caring.” (DA 1987, page 2)

The main difference between BIRG and the DA is that BIRG would not restrict basic income to people with disabilities. Nevertheless, from the evidence available it is clear that the chances of being able to provide a full and adequate basic income for every citizen are so remote (largely for cost reasons) that the emphasis must be on universal **partial** basic incomes (PBIs), topped up by PBI supplements for selected categories, including people with disabilities. The purpose of this paper is to

show whether or not a partial BI scheme can be devised that would be in the interests of people with disabilities, at a cost that seems politically acceptable.

The paper starts from a recognition of the heterogeneous needs and circumstances of people with disabilities, alongside their shared vulnerability. Somehow we have to find a system of income support that can cope with wide disparities between different individuals with disabilities, not least differences of age and differences in the severity and symptoms of their disablement, without losing sight of the fact that together they constitute the most vulnerable group of persons in society.

The point is obvious, but needs emphasising. All babies and small children are vulnerable, but a child who also suffers from a physical or mental disability is doubly so, and the parents too are affected, because the disability of their child involves them in extra expenditure (and loss of earnings), which most can ill afford. Working age adults with disabilities are disproportionately affected by unemployment, and even those who do have jobs are disadvantaged by the fact that their basic living costs tend to be higher than average whereas their earning capacities tend to be lower. Among retired people wide gulfs exist in terms of needs, costs and living standards between the “young old” who are fit and well, the “young old” who are neither fit nor well, and the very old who gradually succumb to increasing frailty as well as to other more specific disabilities.

It is this shared vulnerability that sets people with disabilities apart from their able-bodied contemporaries at each stage of the life cycle, and that requires innovative forms of income support — not just increases in, or additions to, the conventional benefits, but a new approach. Arguably the needs of people with disabilities should be given top priority in the social security budget of any country concerned to provide a satisfactory safety net for all its citizens. Sadly, and for reasons that are largely historical, this does not happen. Despite the piecemeal addition of new benefits during the past decade there are still only a few benefits during the past decade there are still only a few benefits that offset the **extra** costs of disability at any stage of the life cycle. Moreover many of the disability costs that are now met through the supplementary benefit scheme seem set to vanish after introduction of *income support* in April 1988.

So long as cash expenditures on income maintenance remain dominated by the traditional principle of compensation for loss of earnings, and by the unrealistic assumption that people are either in or out of work, people with disabilities will lose out and the lion's share of benefit expenditure will go to those who previously earned the most. This is especially the case with the state earnings related additions with retirement and invalidity pensions (SERPS).

With the new emphasis on care in the community, and the emergence of a new generation of very old people, there also arises, with increasing urgency, the question of who is to do the caring and of how the caring process should be financed. Traditionally the role of carer has fallen disproportionately on women, who are expected to put their responsibilities for elderly or disabled relatives above their own economic independence. This limits their ability to build up independent pension rights for their own old age, and is one reason why women feature disproportionately in the low income statistics

of those above retirement age, and will continue to do so. Since women tend to live longer than men they are caught in a double paradox. They are more likely than men to require institutional care, but are less likely than men to be able to pay for it. Invalid care allowance, introduced in 1976 and payable if the disabled person is in receipt of attendance allowance, is a step in the right direction (now that married women can also claim it), but it does not go far enough. Nobody knows how many people with disabilities are living in poverty. Until publication of the results of the forthcoming OPCS survey (expected later this year) there are not even any up-to-date, official estimates of the number of people with disabilities, or the degree of their disablement. The low income families analyses produced by the DHSS are particularly misleading, because they use the supplementary benefit scale rates as reference points for need, without taking into account the extra needs and costs of people with disabilities. Even as *Low Income Families — 1983*⁴ shows 6% of working age people with disabilities with relative net resources **below the ordinary** rates of supplementary benefit and 45% with relative net resources below 140% of those rates.

All in all there is little doubt that the combined effect of the contribution requirements for invalidity benefit, liability to maintain between husband and wife for means-tested benefits, age restrictions on mobility allowance (no new claims after age 65, and loss of existing entitlement at age 75), the 80% test for severe disability allowance, the £5 earnings rule with *income support*, and the absence of any all-embracing disability costs allowance (payable regardless of age, work or marital status) is to exclude many people with disabilities, perhaps the majority, from entitlement to any form of disability income.

Even those fortunate enough to receive invalidity benefit soon find themselves trapped in a maze of regulations, for instance they are not allowed to earn more than £25.50 a week, and the earnings must be "therapeutic". On paper, and within the parameters of an income support system based on benefits paid as compensation for loss or interruption of earnings, these restrictions seem to make sense. But in real life people with disabilities cannot be packaged into those who are and those who are not fit for work, indeed any attempt to do so can hinder their rehabilitation. As a result of the earnings rules, benefit all too easily becomes a low income trap and a source of psychological harassment, the only escape from which is through the black economy. Moreover the high living costs of some claimants make it impossible for them ever to obtain net incomes (after tax, travel to work and housing costs) that are sufficient to offset loss of benefit, even assuming they are in regular work. That is why employees in some sheltered workshops have to suffer the indignity of a £5 wage for a week's work.

It follows that if we really want to help people with disabilities to live normal lives, that part of the benefit necessary to cover their basic living costs must be tax-free and exempt from any claw back.

2. The basic income approach to income maintenance

The basic income approach is innovative, and offers real

hope of a better deal for people with disabilities. For a start it breaks with the convention of benefits paid as compensation for loss or interruption of earnings and there are no contribution requirements. Basic income is a tax-free, non means-tested income guarantee, payable whether or not the person is or has been in paid work, and withdrawn through the tax system from those who are in paid work, or who have investment income. This makes possible abolition of all contribution conditions and all earnings rules. Basic income also breaks with the convention of benefits linked to marital status. The assessment unit becomes the individual and the cohabitation rule becomes irrelevant.

A basic income system would involve replacement of the present dual system of cash benefits **and** income tax reliefs by a new, integrated system of guaranteed basic incomes. For people with no income of their own the basic income is an automatic, tax-free, non means-tested cash benefit. For the lower paid, for people with part-time or irregular earnings, or with small investment incomes, the BI is an automatic topping up mechanism. For everybody else the BI is a credit against tax. But unlike a conventional income tax allowance, the BI does not go up in value with the marginal tax rate of the tax-payer.

The aim of a full basic income system, as defined by BIRG is, "to guarantee to each man, woman and child the unconditional right to an independent income sufficient to meet basic living costs". This means the same **equivalent** basic income for all, in other words enough to guarantee to everyone the same basic living standard, after taking into account variations in needs and costs. It follows that many people with disabilities would receive extra payments, through a **disability costs allowance**. It also follows that children with disabilities as well as adults would need to be eligible for the DCA.

The basic income would be withdrawn through a new income tax or **basic income contribution (BIC)**, which would replace existing income tax and national insurance contribution. The rate of the BIC can be either flat rate or progressive.

Table 1 shows how it could work. This is a *Basic Income Guarantee* or BIG option, costed for 1985-86. It is estimated that in 1985-86 a universal partial basic income (PBI) of £24 a week plus old age/disability supplements of £36 a week and a disability costs allowance with a budget of £4,000 million could have been financed assuming a BIC of 38 percent.⁵ For low income householders there would also be an income-tested housing benefit.

The rates of BI that can be afforded depend crucially on the extent to which the non-personal as well as the personal income tax reliefs can be phased out. The reason for phasing out mortgage interest and private pension tax reliefs is to widen the income tax base. It is estimated that the tax base in 1985-86 was reduced by up to £50,000 million on account of these reliefs. That figure includes employers' contributions to occupational pensions which are treated as a benefit in kind. Assuming a BI contribution of 40 percent, abolition of these reliefs could produce an extra £20,000 million of revenue for the BIs. Extra revenue for the BIs could also be obtained by phasing out state earnings related pension (SERPS), which will cost over £5,000 million (at November 1985 prices) by the year 2003-4⁶.

Table 1: BIG 1(a), single non-householder

November 1985

Existing system	£	BIG 1(a)	£
Earnings	0.00	Earnings	0.00
+ SB	23.6	+ PBI	24.00
= Net Income	23.60	= Net Income	24.00
Earnings (part-time)	10.00	Earnings (part-time)	10.00
+ SB	17.60	+ PBI	24.00
- Income tax	0.00	- BI contribution	3.80
= Net Income	27.60	= Net Income	30.20
Earnings (part-time)	30.00	Earnings (part-time)	30.00
+ SB	0.00	+ PBI	24.00
- Income tax	0.00	- BI contribution	11.40
= Net Income	30.00	= Net Income	42.60
Earnings (part-time)	60.00	Earnings (part-time)	60.00
+ SB	0.00	+ PBI	24.00
- Income tax	5.28	- BI contribution	22.80
- NI contribution	4.20	- NI contribution	0.00
= Net Income	50.52	= Net Income	61.20
Earnings (part-time)	10.00	Earnings (part-time)	10.00
+ SB	0.00	+ PBI	24.00
- Income tax	17.28	- BI contribution	38.00
- NI contribution	9.00	- NI contribution	0.00
= Net Income	73.72	= Net Income	86.00
Earnings (part-time)	150.00	Earnings (part-time)	150.00
+ SB	0.00	+ PBI	24.00
- Income tax	32.28	- BI contribution	57.00
- NI contribution	13.50	- NI contribution	0.00
= Net Income	104.22	= Net Income	117.00

Even if one accepts that mortgage interest and private pension tax reliefs serve a useful purpose, they are of no use at all to those who cannot afford a mortgage, or who are not in regular employment. Similarly SERPS is of little or no value to those who have no hope of building up an earnings-related pension. If they were phased out, thousands of millions of pounds of extra revenue could be made available to protect basic living standards. At November 1985 prices the choice boils down to a guaranteed basic income for each old age and invalidity pensioner of £60 a week, or a basic pension of £38.30 plus SERPS and continuing tax reliefs. For people with disabilities the first option must be the best.

3. Difficulties

In practice it is by no means easy to devise a basic income scheme that is workable, especially one that would meet the requirements of people with disabilities, and there are three reasons for this:

1. Nobody knows how much income different people need to meet "basic living costs".

2. Nobody knows how many people with disabilities there are, or the severity of their disabilities.
3. A full basic income system is too expensive.

1. The need for family budget standards

Ideally the designers of any income support system would be able to start from systematically assessed, and generally accepted, estimates of the needs and costs of able-bodied adults and children at different stages of the life cycle and at different, predefined living standards. From these figures it would be possible to calculate *equivalent ratios* for families of different size and composition. For instance, taking an able-bodied single person as the reference point, and assuming an equivalence ratio of 2.5 for a two child, two parent family, then if the BI for a single person was £60 a week, the BI for the family would need to be £150 a week. With those figures as a base the **extra** costs incurred as a result of disablement (including the costs of caring) could then be added on.

Unfortunately no such figures exist in Britain. They are difficult to calculate, and the last person who tried to do so was Beveridge in 1942. Because of the resulting information gap, most of the benefit changes proposed in recent years have been based on existing structures, or have been taken out of thin air.

The illustrative basic incomes shown in Table 3 were derived from existing national insurance and supplementary benefit scales, but subject to the six following provisos:

1. No differences on account of sex
2. No differences on account of marital status
3. No differences on account of contribution record
4. No differences on account of work status, ie no earnings rule
5. No differences on account of cause or origin of disability
6. Nobody wholly dependent on benefit to lose out.

The question of disability costs remains. The scales used in the forthcoming OPCS survey and by the Disability Alliance (DA) refer to severity of disability, which **does not necessarily correlate with the extra costs incurred**. More work is badly needed here, and will form part of the OPCS survey. For BIG 1(a) Hermione Parker has budgeted for a Disability Costs Allowance (DCA) costing £4,000 million in 1985-86. That works out at an average weekly payment of about £26 a week, assuming 3 million people with disabilities. This is less than the £4,600 million estimated by the DA in their 1987 paper, but it would be a good start.

(2) Numbers of people with disabilities

There exist at present no official, up-to-date estimates of the number of people with disabilities in the United Kingdom, nor any up-to-date, official estimates of people with disabilities by age-group and severity of disablement. About 965,000 people receive invalidity benefit, and a further 245,000 received severe disability allowance in 1987-88⁷. These figures take no account of people with disabilities who are above retirement age, nor of working age people with disabilities who are in paid work or unemployed and available for work, or who are outside the labour force without entitlement to benefit, for instance married women, students and children.

Pending publication in 1988 of the results of the OPCS survey carried out in 1985-86 into the numbers, incomes and needs of people with disabilities, the best estimates available are reckoned to be those produced by the DA, and reproduced in Table 2. These show an estimated total of about 3 million people with disabilities in 1985 in Great Britain, of whom nearly 1.8 million were aged 65 or over and about 1.65 million were OPCS Category (6), using categories from the 1969 OPCS survey, that is to say with a percentage disablement of between 20-40 percent. The new OPCS figures will certainly be higher than those in the 1969 Survey, and the categories used by the DA may well be changed as a result of the new OPCS Survey.

Table 2: Disability Alliance estimated number of people with disabilities, according to age, percentage and severity of disablement

Private households, Great Britain, all ages, 1985.

Degree of disablement (OPCS 1969 numbered categories in brackets)	Suggested percentage disablement	Age			All ages
		0-15	16-64	54+	'000s
Maximum (Categories 1-2)	100	6	8	46	60
Very severe (Category 3)	80	34	80	228	342
Severe (Category 4)	60	30	72	174	276
Fairly severe (Category 5)	40	25	180	380	585
Appreciable (Category 6)	20	205	482	960	1,647
TOTAL		300	822	1,788	2,910

Note: Estimates in the 1968-69 OPCS study for Britain have been updated for population change and upward trends reported for all age groups in the GHS. Estimates for children have been added. An allowance to compensate for underestimation in the OPCS survey has also been added, in conformity with GHS and specialised national and local survey evidence (as reported in MSC, Working Group Report, *Quota Scheme for the Employment of Disabled People*, Annex 8, April 1985.)

Source: Disability Alliance 1987 *op cit*, Table 6.

(3) Full basic income is too expensive

From the evidence available it seems unlikely that a full basic income scheme would ever be feasible, and there is certainly no hope of it in the foreseeable future.⁸ Assuming a basic income sufficient to cover all essential living costs, the tax rate on all other income would need to be at least 70%, and it is no good arguing that economic growth would gradually remove this difficulty, because economic growth involves changing needs as well as changing costs. Moreover a basic income scheme that allowed the **relative** position of those wholly dependent upon it to fall behind would not be worth supporting.

For the purposes of this paper therefore, the question is whether it is possible to devise a modified or **partial basic income scheme** that would meet the needs of people with disabilities. For the sake of simplicity we take the Basic Income Guarantee or "BIG" schemes devised by Hermione Parker as the starting point. These are all partial BI schemes. The tax credit scheme devised by Philip Vince for the Liberal Party⁹ is also a partial BI scheme, but is omitted here for the sake of simplicity.

All BIG schemes have the following four main components:

1. A universal partial basic income, or PBI, with a lower rate for children under sixteen years of age.
2. Basic income supplements, focussed on people with special needs and/or with low earnings potential.
3. A disability costs allowance.
4. An income-tested housing benefit.

Basic income supplements were devised as a form of selectivity without income-testing. They go to people with low earnings potential. By providing a child basic income somewhat higher than the supplementary benefit rates for children, and by focussing BI supplements on people with disabilities, and on everyone aged 65 or over, it is possible to reduce to a minimum the number of households requiring income-tested assistance. Nevertheless, as will be shown, there are difficulties in relation to people with disabilities. For whereas it is easy to operate a supplement based on age it is far from easy to operate a supplement based on disability.

Once again, the objectives nevertheless tie in well with the long campaign for a **comprehensive disability income scheme**, not least the three fundamental principles of equity set out by the Disability Alliance, as follows:-

1. **Equity between people with disabilities and non-disabled people** — through measures to raise the living standards of people with disabilities at least up to those of non-disabled people; to meet the additional expenses of disablement; and to provide special protection against living standards being eroded at times of inflation.
2. **Equity among people with disabilities** — so that people with different types of disability shall

have a right to income on equal terms. This should apply to all kinds of disability, whether mental or physical; from birth or acquired; contracted in the home, at work, or at war.

3. **Equity between degrees of disability** — by assessing the severity of disability, so that benefit shall vary according to the degree, and not the type of disability.

Is it possible to devise a partial BI scheme that would meet these criteria? In the rest of this paper we discuss some of the options.

4. Basic income as part of a comprehensive disability income

The following values of the four main BIG scheme components are thought to be revenue neutral, at 1985-86 prices and incomes, assuming a 38 percent starting rate of tax, abolition of mortgage interest tax relief and abolition of about half the private pension tax reliefs⁵.

Table 3: BIG 1(a), 1985-86

	Basic income £ per week
(1) A partial BI, each adult from age 16	24.00
each child 0-15	17.00
(2) BI supplements for disability, old age and carers	36.00
(3) A disability costs allowance, budget £4,000 million	variable
(4) Housing benefit	variable

Starting from the values in Table 3, the basic income for any two adults with two dependent children, assuming one adult to be in need of constant care (however defined) would be:

	£
Caring spouse or partner	60.00
Spouse/partner with disabilities	60.00
	+DCA
Two children @ £17 each	34.00
TOTAL	154.00 + DCA

From this figure deduct £36 if the disabled person is not in need of constant attendance. Mobility and attendance allowance are included within the DCA.

Each of these components involves major questions both of principle and of administration, and the working group examined each in turn. Three issues stand out:

First, the need to compensate people with disabilities for the extra living costs that they incur.

Second, the need to compensate them for their loss of earnings.

Third, the need to compensate those who care for them for their own loss of earnings.

(1) Basic living costs: the PBIs and the new housing benefit

In each case we started from the assumption that each adult would have £24 a week universal PBI and each child would have £17 a week, at November 1985 prices. Since nobody knows how much an able-bodied adult needs to live on, Parker based her £24 PBI on half the rate for a married couple in the Technical Annex to Mr Norman Fowler's *Reform of Social Security* White Paper¹⁰ in December 1985. The child PBI is an average of the children's SB rates plus passport benefits. It could be age-related. Entitlement to the PBIs would be based on age and legal residence alone. It therefore presents no great administrative problems.

The BIG 1(a) new housing benefit has a £7.70 householder addition, payable in addition to rents, rates and water rates. It represents the difference between the November 1985 supplementary benefit scale rate for a single householder and half the married couple's rate, plus £2.20 for heating. The re-structuring is necessary in order to have a system that is marriage neutral. The question is whether the difference between existing invalidity benefit and the full BI of £60 should be used to raise the living standards of people with disabilities, or whether it should be used to lift them off housing benefit. Parker chooses the second option. Housing benefit for a single householder in receipt of the disability supplement, or for a married couple where one spouse receives the supplement, is based on the following formula (assuming no other income): rent, rates and water rates in full less £20.30. Where both spouses receive the full BI, the housing benefit formula (assuming no other income) is: housing costs in full less £57.80. The taper is 50 percent of net income. Assuming a BI contribution rate of 38 percent, this produces a maximum marginal tax rate of 69 percent.

(2) Extra living costs: The disability costs allowance.

One of the fundamental objectives of basic income is to guarantee an **equivalent** basic living standard to every citizen or legal resident. For people with disabilities this is extremely important. Certain living costs associated with disabilities are simply additional expenditure over and above the amounts that able-bodied people pay, for example on housing, fuel, diet, clothing, laundry, transport and the performance of household tasks. The DCA envisaged by the BIRG working group is intended solely as an extension of the universal, partial basic income, to which everybody would be entitled. It has nothing to do with earnings replacement. It is about paying for extra needs.

The OPCS survey will eventually indicate the numbers of people with different types and degrees of disability, from which it should be possible to draw up scales of extra-living costs and the amount to be budgeted for. In the meantime the most up-to-date information available is that reproduced from the Disability Alliance's recent paper in Table 2.

The Disability Alliance proposes a two-tier DCA which they call a *disablement allowance*. For most people with disabilities there would be access to one of five rates of

disability allowance (see Table 4 below), each linked to severity of disability. By far the largest number of people with disabilities (an estimated 1.6 million) would probably qualify for the lowest rate of benefit, and a further 0.6 million for the second lowest rate, leaving around 0.7 million on the higher rates. For the relatively small number of people with exceptionally severe disabilities and exceptionally high costs, the DA recommend a system of additional weekly allowances geared to meet the needs of each individual. These supplementary allowances could be paid to cover particularly expensive diets, and so forth, or as "a means of providing a realistic alternative to institutional care for people with very high attendance needs". Additionally the DA envisage one-off grants in certain cases.

The DA emphasise that the disablement allowance on its own is not intended to provide a sufficient income on which to live. This seems to fit well with the DCA that the BIRG working group envisage, since BIRG's DCA would be added to the universal partial basic income and, in some cases, to the BI disability supplement. Both the DA and BIRG allowances would be long-term benefits and both would be payable to people with disabilities at any age. Both would be tax-free and both would be payable whether or not the claimant was in paid work. Neither would be income-tested or means-tested, and the unit of assessment in each case would be the individual, regardless of sex or marital status.

One obvious example of a DCA paid in addition to basic income would be for children with disabilities, who would not be entitled to the BI disability supplement, because they have not forfeited earnings, but for whom the parents would be able to claim the DCA appropriate to the disability of the child. Another example would be someone who was blind, able to earn a living but who had above average transport costs in order to get to work. Another would be an elderly person, already in receipt of the BI age supplement but crippled by arthritis and with extra heating and transport costs.

November 1985 prices. To reach total entitlement you add the £36 supplement to the £24 universal PBI. Ideally the PBI plus the PBI supplement should add up to a full BI. A combined rate of £60 a week compares with £38.30 under the existing system (plus a maximum invalidity allowance of £8.05). In 1985-86, £60 a week was about 30% of average earnings, which has long been the target for a single person's pension. For a married couple the joint BI is £120, because the amount for two is double the amount for one. This is significantly more generous than the traditional 50% of average earnings target. Where only one spouse is entitled to the full BI, the joint BI is $\frac{1}{2} \times 24 + \frac{1}{2} \times 24 + \frac{1}{2} \times 36 = £84$. Nobody would be eligible for both a disability **and** an old age BI supplement, although they could be eligible for a DCA as well as an old age or disability supplement.

Hermione Parker's original rationale for the BI supplements was to minimise the need for means-tested housing benefit, by focussing extra income on those most likely to have low earnings, of whom elderly people and people with disabilities are two obvious examples. It follows that the BI disability supplement is in a sense a compensation payment, which is contrary to the principles of basic income, but may be one of the compromises necessary in order to convert the concept of full basic income into a workable partial basic income system.

For elderly people this breach of principle does not present difficulties, since it is generally accepted that they should not have to do paid work. The only major change by comparison with the existing system would be abolition of the earnings rule. For people with disabilities the situation is more complex. Even those who support the idea of an unconditional **partial** basic income for all, are unlikely to support the idea of paying a BI supplement, which is *de facto* a compensation for loss of earnings, to people with disabilities who would not be in paid work even if they were fit to work.

On the other hand if the disability supplement were paid along the lines of a conventional compensation payment, it would be necessary either to retain some sort of earnings restriction or to devise a benefit withdrawal formula. Both would have precisely the effect that we are trying to avoid, namely that of locking disabled people into claimant roles. Already the combination of the new BI contribution at 38-40 percent plus withdrawal of housing benefit produces a marginal tax rate of about 70 percent. The addition of another taper for the BI disability supplement would produce a poverty trap effect. Likewise an earnings rule would perpetuate the existing unemployment/invalidity trap effects. BIRG is fully committed to the abolition of all earnings rules, because we believe that it is in the interest both of the taxpayer and of the individual to encourage paid work wherever possible.

The nub of the question is how to operate a BI disability supplement, payable only to those who are unfit to work, without either involving the taxpayer in unnecessary expense (by paying it to those who do not really want to work) or destroying the incentive of people with disabilities to regain financial independence. Many are able to do paid work, some are able to work on a regular basis, whilst others would not wish to do paid work even if they had no disabilities. The difficulty is to distinguish between them.

Table 4: Disability Alliance proposed rates of disablement allowance

% Assessment	Weekly allowance £
100	80
80	64
60	48
40	32
20	16

Note: 1986-87 benefit levels

Source: Disability Alliance 1987, Table 5.

The BIRG group were nevertheless not satisfied that severity of disability should be the criterion.

(3) Replacement income: The BI disability supplement.

A BI old age/disability supplement of £36, as shown in Table 3, would bring the BI equivalent of basic old age pension or invalidity benefit to £60 per person at

The working group discussed **three main options**, one unconditional and two conditional. In each case the conditionality referred to is a condition of availability for "suitable" work or training:

Option one. An unconditional BI disability supplement, payable to anyone assessed as having a disability that reduces their capacity for work, with no strings attached, but subject to annual review (or as necessary) on an individual basis. Note that the criterion is capacity for work, not degree of disability. That is why the review has to be on an individual basis.

Option Two. A two tier basic income, both tiers universal, but with one tier unconditional and the other tier conditional and withdrawable; and with the onus on government to fulfil its side of the condition by finding suitable work or training for everybody who wants it.

Option three. A conditional but non-withdrawable disability supplement for anybody with 20% or more disability, again with the onus on government to fulfil its side of the condition by finding suitable work or training.

Option one: an unconditional disability supplement

This would amount to an *occupational handicap allowance*, and would be payable to anyone suffering from a chronic disability such as to reduce their chance of undertaking regular, full-time paid work. In this context a chronic disability would be defined as a disability that had lasted for more than 26 weeks, or that had been certified by a doctor as likely to last for at least 26 weeks. There would be no earnings restrictions, but benefit entitlement would be reviewed at yearly intervals.

The advantage of this approach is that it would not deter disabled people from seeking employment. The disadvantage is that assessment of occupational handicap would still be problematical. It might be made according to a number of measures, not exclusively medical. The test might need to be carried out by members of different professions, including physiotherapists and occupational therapists as well as doctors. Ideally, testing should be linked to positive schemes for rehabilitation and training, as in West Germany, and at this point we seem to be moving towards Option 3!

This option was rejected by most members of the Working Group on the grounds that it would not distinguish between those who were genuinely unable to earn and those who had never been in the labour market or had no real wish to work, for instance some married women.

Option two: conditional BI supplement for all

This proposal is an adaptation of the proposal for an *earnings replacement benefit* put forward by Peter Mitchell in *Constructing a national disability income*. (RADAR 1986).

The proposal is that every adult citizen should be entitled to a full BI **unless** they were either in paid employ-

ment, or had refused job offers of which they were capable without good cause.

With a scheme of this kind a full basic income of £60 a week (£24 unconditional +£36 conditional and withdrawable) would be automatically credited each week to each adult resident's GIRO or tax-approved clearing bank account. In order to sort out the sheep from the goats it would then be up to government to offer suitable work or training to anyone without it. If they refused they would forfeit the £36, but would still be eligible for the unconditional partial basic income of £24.

The advantages and disadvantages of the scheme can be summarised as follows:

Advantages

(1) No one would be left without either a job or a full BI unless their employment was genuinely voluntary. Some people may object to use of the word "refuse", but it is important in order to emphasise that benefit cannot normally be denied unless a specific job has been offered. In order words the onus is on the State to show that a person is not willing to work.

(2) The provisos "of which they are capable" and "without good cause" are the means by which, for example, disabled people and carers can be treated differently to young, able-bodied people without dependents. In particular the decision whether someone is or is not "capable of work" would only arise in face of a specific job offer, not hypothetical employment available somewhere. In practice the need for such a decision would be much rarer than now, as it is now used mainly to distinguish between entitlement to different benefits, not to decide whether someone can go back to, or take up, a particular job.

(3) As with the universal PBI, but wholly unlike current benefits, there would be a single test, applied to everyone. But people could not suddenly be denied benefit, following a change of status, eg if the person they were caring for died.

(4) The formula should be particularly advantageous to severely disabled people, who could be treated, formally or informally, as having good cause to refuse any employment; this would in effect abolish all the current disincentives for those who are "safe" on invalidity benefit unless they attempt to work.

(5) The formula is also malleable. For example regulations could determine what work it was or was not reasonable for particular groups to refuse, eg single parents or the caring parent, according to the age of their children. Multiple factors could be taken into account, eg a disabled parent might be entitled to refuse all work while the same person if either not disabled or not caring for a child might be expected to accept part-time employment.

(6) Part-time work could also be encompassed. People should be encouraged to find part-time work if no full-time work were available and to receive a

proportion of benefit for the percentage of the week not worked. Some disabled people, carers and parents might only be required to accept part-time employment (ie they would be guaranteed partial benefit unless actually working full-time, and they would receive full benefit unless working part-time, or they had refused a specific part-time job of which they were capable).

Disadvantages:

(1) The first disadvantage is the extra cost of the BIs. Assuming 3 million unemployed, the minimum extra cost would be £6,000 million. There is no saving on existing benefit expenditure because that has already been used up to finance the partial BI. Although some of the 3 million unemployed would find work, there is no knowing how many others might replace them, including perhaps a million people who are not at present registered for work but who would like to work if they had the chance to do so.

(2) The second disadvantage is administrative cost and complexity. Since there is a presumption of benefit the case-work would involve positive efforts on the part of the authorities to find people work which they could do, rather than the current emphasis on benefit denial. Suitable work, sometimes full-time and sometimes part-time, would have to be provided for up to 35 million working age adults. Without the suitable job offer, non-earning wives would be eligible for a full BI. Arguably there would be enormous amounts of case-work.

(3) It would create poverty trap/unemployment trap effects. A "suitable" full-time job would need to be one that more than offset loss of benefit. This depends partly on the taper or withdrawal system, which needs to be spelt out. Care would have to be taken to ensure that the wage or training allowance net of tax was sufficient to offset the conditional supplement, to allow for the costs of working and to offset the disutilities of work. Assuming a BI supplement of £36 and tax on all other income of 38% the minimum full-time weekly wage would have to be about £100. People working part-time could be allowed to keep some of their supplement. Even so, either there is going to be a disincentive effect, or, if the taper is low, the cost of the scheme will go up.

Option 3: a conditional, non-withdrawable disability supplement

This option is a compromise between options one and two. Anyone with a disability of 20% or more would automatically qualify for a BI disability supplement, bringing them up to the full BI paid to elderly people. In order to qualify for the supplement they need not wait the usual six months, provided they have a doctor's certificate. This provision is designed to help people who suddenly become seriously ill, or have a serious accident as a result of which they are obviously not going to be

able to work for a long time. The work condition is merely a device to identify those who have no intention of doing paid work. If offered a suitable job or training they would be expected to take it, otherwise they would forfeit the supplement. As with option 2 the onus would be on the authorities to find suitable work, training or re-training. Putting the onus on the State in this way could encourage a more positive approach to rehabilitation and re-training measures. There is however a case for including voluntary work as an alternative condition for retaining benefit entitlement.

In order to encourage and help people with disabilities to get into the labour market the benefit would not be withdrawable and there would be no earnings rules. Instead, since all earnings would be taxable, the benefit would be gradually recouped through the tax system. Entitlement would be reviewed at annual intervals, taking into account each person's medical history and work record over the previous twelve months.

(4) A BI supplement for carers.

The last question tackled by the group is how best to care for the growing number of severely disabled people, many of them very elderly and some of them younger people who until the advent of modern medicine would not have survived at all. If these people are to have a real choice between institutionalisation and being looked after at home, some provision has to be made for those who would care for them in the home. In this context it is important to distinguish between the needs of the person who requires care and the needs of the person who does the caring. Both are equal citizens and both have rights that need to be respected. This is completely in keeping with the basic income principle that each person has an individual right to an income sufficient to provide an adequate living standard.

The group felt that the aim should be to provide carers with a proper, fair recompense for their work, while at the same time leaving them free to participate in paid employment or any other social role. The objective should be to give carers adequate recompense which did not restrict economic participation, and which would allow fairness in the distribution of income within the household.

In the discussion paper she prepared for the Working Group, Hermione Parker suggested that each carer should qualify for the equivalent of a full basic income, on the grounds that they would be likely to have low earnings potential. She proposed that anyone taking day-to-day responsibility for a severely disabled person, or for any person aged (say) 80 or over, should qualify for the equivalent of the old age or disability supplement, bringing their basic income up to £60 a week at 1985-86 prices. Thus in a family consisting of a severely disabled person plus spouse, each would get a full BI. Since the payment would be primarily for "attendance", there would be no need for any detailed test or assessment of duties undertaken, and there would be nothing to prevent the carer from using the extra money to buy in care while he/she did paid work (or anything else) outside the home. Since carers would be responsible for the disabled person during most of each twenty-four hours it is unlikely that they would be able to earn a great deal of money. Application for a carer's supplement would need

to be endorsed by the family doctor and by the local social services (or cash and care) department, and would be subject to annual review.

There are a number of arguments in favour of a carer's BI supplement. Perhaps the most important is to make it easier for people with severe disabilities to be nursed in their own homes (instead of being institutionalised) without the family being driven into poverty and despair. Another could be to encourage very old people to move in with friends or relatives, instead of trying to go on living on their own. One of the objectives of basic income is to encourage people to recognise the importance of unpaid work, and a carer's supplement is one obvious way to go about it. This ties in with the suggestion that the work test applied to the disability supplement should include unpaid as well as paid work. That could be used as the starting point for self-help organisations among people with disabilities, which might include the sharing of tasks such as caring.

Judith Oliver argued strongly that there should be a disability costs allowance (including costs of care) for people with severe disabilities, **and** a benefit for carers. She said that carers stand to be exploited if all allowances are paid to the people who are being cared for, and none to the carers directly. Informal care could then be seen as a cheaper option, and disabled people might trade on the guilt and sense of obligation felt by able-bodied relations or spouses. It is also often difficult for carers to ask for "payment" in a relationship where tasks are done on a basis of mutual affection and concern. Above all it is important to bear in mind the research done by Jan Pahl and others, which shows that income distribution within households is by no means always fair and can be the cause of much distress.

On the other hand it was argued that a carer's supplement was not appropriate because it would create an unacceptable role, which would fall disproportionately on women. If a carer's supplement is necessary for people looking after others with disabilities, why not pay one to mothers looking after their children? Bill Jordan suggested that any disabled person receiving a costs of care allowance should be required to declare the proportion of care to be provided by informal carers as a percentage of the allowance as a whole. This declaration could be a condition for receiving the allowance. The local authority could then pay that proportion directly to the informal carer as a 'wage'. If there were a national minimum wage in operation, then the payment should be equivalent to this, on an hourly basis, but only where active care (as opposed to 'attendance') was required. The same would of course apply to contract care arranged by the local authority. The advantage of this arrangement would be that informal care would be put on exactly the same basis as state and commercial care. This would allow substitution between all three, and effective combinations of all types of care. It would mean that, where there was potentially more than one carer in the household, the caring role could be shared.

Once again the discussion was hampered by lack of statistics showing the number, or potential number, of carers. Some of this information will be provided by the OPCS survey. In 1980 the Equal Opportunities Commission estimated that there are more than one and a quarter million carers looking after someone with a severe or very severe disability, many of them elderly dependents.¹¹ The cost of a carer's supplement would

depend very much on the way the regulations were framed, but there is little doubt that for each person with disabilities kept out of hospital the Exchequer would make a net profit. Moreover the cost of a £36 a week carer's supplement would be considerably less expensive, both in money and in administration, than the wage-based formula proposed by Bill Jordan.

The BIRG Disability Group who contributed to this discussion paper comprised the following individuals, who do not necessarily subscribe to all the views set out in the paper:

Linda Avery: formerly of the Spastics Society
Maria Evandrou: London School of Economics
Mavis Maclean: Disability Income Group
Jean Martin: Office of Population Censuses and Surveys (OPCS)
Evelyn McEwen: Age Concern
Peter Mitchell: formerly of RADAR
Judith Oliver: formerly of the Association of Carers
Hermione Parker: formerly BIRG chairman

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Back to Basics: A Plan for Simple Pensions

Philip Chappell

The following paper is an edited version of a presentation made at the BIRG seminar on pensions in October 1986. Philip Chappell particularly emphasised that he was speaking in a personal capacity.

In 1986 the Financial Times published a leader headlined *The Muddle over Pensions*. After seven years of attempts to modernise and reform the British pension system, we still have a shambles of complexity, no political consensus, and an almost total lack of personal involvement by the individual in his retirement provision. This paper starts by setting out pension objectives, which it then compares with the actual situation. Finally some solutions will be presented, all of them in a personal capacity.

Ideals

Take a blank sheet of paper and, on the left hand side, consider what would be the ideal arrangements for pensions in a democratic, capitalist society. I suggest that there would be eight main themes:

1. A guaranteed basic pension for all. It would be fully understood that the State as such has no money. All it can do is to channel resources from one group of citizens to another. Nevertheless there is a general belief that all our older or disadvantaged citizens, regardless of means, should have a guaranteed basic living standard, which should be as high as the taxpayers of the time believe to be reasonable.

2. Extra provision financed by employers. Employers have come to believe that they have a duty, or perhaps a paternalistic obligation, to ensure that the retirement of their employees (or at least of their long-serving employees) is slightly more comfortable than that provided by the basic state system. Employers are particularly concerned to protect employees' families from the hazards of death or disability during their working career, even if it was not the direct fault of the employer.

3. Savings, ownership and thrift are basic personal instincts. Moreover there is a strong philosophical justification (from Aristotle to Popper) for supporting the human instincts of acquisition and ownership. They provide the foundation of an open society, producing multiplicity of patronage, and offering hope to every member of society.

4. Mobility of labour is in the public interest. Whatever employers may feel about the need to retain their labour force, the public interest requires that job mobility be maximised, all the more so at a time when

the idea of "employment for life" is becoming increasingly old-fashioned.

5. The facts about pension schemes must be readily available. If an employer sets aside savings on behalf of an individual in his employment (as a protection against the human propensity to spend rather than save), that individual should have a clear understanding of what is being saved, and how it accrues on his behalf.

6. Pension tax reliefs should be kept as small as possible and the cost made plain. Some of the above policies might attract tax concessions. Nevertheless it needs to be said, again and again, that a privilege to one taxpayer is a penalty on another. There is only one rice bowl of real resources. Any tax concessions, therefore, should be transparent and limited in amount.

7. Cross-subsidisation is inherently unjust, at least unless all the parties fully understand what is happening. Although it is perfectly acceptable for a group of individuals to provide each other with mutual protection and insurance against the human risk of mortality or damage to property, it is less acceptable for an employer to enforce cross-subsidisation on his workforce — especially when they do not even understand it. And it is even less acceptable for a Government (or a foreign bureaucracy like the EEC) to encourage it. Unisex annuities are one aspect of cross-subsidisation, but those who live in glass houses of pension fund management should be wary of throwing stones at this single example. First they should consider how widely their arguments could be extended.

8. Family relationships should be protected. In an ethical society, the relationships within the family need to be protected. Honouring a surviving spouse's requirements is not enough. We should also respect the human instinct to provide for, and encourage, the next generation. Belief in improvement of our human lot is a basic theme of Western society. We cannot accept the fatalism of more brutal societies.

Actuals

No one should feel that these aims are unachievable, yet we are nowhere near to achieving them. To prove my point, draw a central column on your sheet of paper and compare the British position, as it is today, with the ideals set out above.

1. By common consent the State basic pension is insufficient to provide an adequate living standard. Yet instead of using the limited resources available to increase the basic pension, the State has committed itself to providing additional pension to those lucky enough to have been in employment — always assuming their employer has not done it for them.

2. Private provision for retirement is dominated by employers' schemes. If present trends were maintained, the pension and insurance funds would have grown to a size where they owned all the quoted equities by the year 2000, and the individual would have been crowded out of the stock market. Of course, in practice, something would have happened to change these trends: now is the time to be planning the alternative approach.

3. Personal shareholdings are still declining. Supporters of the present system point to the increased

number of personal shareholders in the past five years, and all credit to the policies and attitudes that brought this about. But the proportion of net financial wealth held by individuals is still declining. The veneer of democratic capitalism is perilously thin. The Stock Exchange's Survey of 483 shareholders taken in 1986 and published under the title *The Changing Face of Share Ownership* suggested that the average savings and investments of those surveyed amounted to £13,200, with just under £4,000 held in shares. Yet these, presumably, are those with a known commitment to the equity market and would represent, on average, the wealthier section of the community. Nobody, apparently, remembered to mention, or rather they did not realise, that the average savings in a pension fund for each member, ie up to 16 million individuals, is around £15,000.

4. Transferability of pension rights is still not enough. Despite reform on transfer values, aimed at helping the early leaver to change jobs without losing his accrued pension rights, the private pension industry still favours the long-serving employee (and "quite right too" can be heard from many employers).

5. Pension funds are "nobody's money". Although many private pension funds already disclose some information to members, and the new rules will improve this, it is still unclear whether the assets of the pension fund belong to the employer (as the guarantor) or the employees (on the argument that sums already paid over are deferred pay). Uncertainty brings the argument that pension funds are "nobody's money". Individual employees do not understand their stake in the industrial success of our society, however indirect.

6. Pension tax reliefs cost £10 billion. The basic State pension, which might be thought to be the more important, enjoys no tax concessions. Employers' schemes on the other hand (and self-employed schemes on a different and less flexible basis) enjoy a major fiscal privilege. There is a disheartening lack of debate about the true cost of these privileges, almost as if the beneficiaries were conspiring to sweep the true facts under the carpet. It was not until 1983 that the Inland Revenue produced their first detailed paper on the true cost of pension fund reliefs: little attention was paid to it at the time and, though the figures are updated annually, there has never been a full analysis of the statistical methods used.

My own approach is to argue that all existing schemes be left as gross funds, but from now on, for the purpose of calculating costs:

- (a) Employers' contributions should continue to be regarded as a tax-deductible expense in their books (just like wages), but should be treated as a benefit-in-kind for the employee and taxable as such, also just like wages.
- (b) Employees' contributions (and those of the self-employed) should cease to be tax deductible.
- (c) A promise of a future pension, albeit unfunded, should be treated as a benefit-in-kind.
- (d) No exemption from capital gains tax on new funds.
- (e) All lump sum commutations to be taxable as income.

On this basis, I believe the tax base would be enlarged by up to £25,000 million, so that the present annual cost of pension tax reliefs is of the order of £10,000 million — far higher than the figure generally quoted. When changes to pension fund privileges are discussed, it is remarkable that no-one mentions the opportunities for radical tax reform and far lower tax rates that would follow from enlarging the taxable base.

7. Cross-subsidisation is endemic in final salary schemes. What is less often mentioned is that it is the impoverished majority who lose and the articulate minority who gain. It was Chris Fildes who said that "trade union leaders should have a proper dislike of watering the workers' beer", which is what employers' pension schemes do at present.

8. Family groups are not protected. Widows and widowers are not treated equally. Women who leave the work-force, often on a temporary basis, are unfairly penalised.

Solutions

Despite the muddle, there could be a better solution, even starting from where we are. But first we have to take account of the trends toward individualism, and we have to accept that the proud boasts of what the State *could* achieve are being eroded by a more practical appreciation of what in practice *can* be achieved.

We must start by honouring all existing commitments. All benefits already accrued in respect of past service would be maintained. But existing funds would be closed to new contributions, for it is generally recognised that they are well enough funded to honour benefits that have been earned to date.

Then we must:

1. Integrate NI contributions with income tax. National insurance, as a contribution system, is a figment of the imagination. By extending its range to all forms of income (unearned as well as earned), and to all levels of income, it would be, and would be seen to be, a fairer tax.

2. Introduce a basic pension for all citizens, regardless of employment history. The level of the pension is a political decision — or rather an agreement between the State and the taxpayers of the day. It should be expressed clearly as a proportion of average earnings, not based on price adjustment, thus reflecting the relative prosperity of the time. But in setting the pension level we must have regard for the redistributive effects of our welfare system. In 1984 the Final Income per adult of the richest 20 percent of households was only 1.96 times that of the poorest 20 percent¹, a fact which is often conveniently forgotten by those trying to score points about the changing pattern of income distribution. It may be that we have already taken redistribution too far, and destroyed incentive.

3. Abolish the state earnings related pension (SERPS). The Government erred in the debate about SERPS by concentrating on the arguments about future cost. They failed to take the high ground of the political argument; they should have said that while it may be the job of Government to help the disadvantaged, it is certainly not their job to provide for those who have had the good fortune to be in employment. SERPS may be

expensive, but the more effective attack is that it is inequitable, unjustified and complicated. Scrap it.

4. Close off all existing private sector schemes. Instead offer all the members either the right to take their assessed share of the fund or leave their accrued rights in the scheme. Wider ownership becomes a reality for 11 million employees at a stroke.

5. Restrict the amount of fiscal privilege for employers' new schemes to perhaps £250 for each employee. This is purely to provide an enhancement to the safety net and would operate only on a money-purchase basis. The accruing fund would be fully transferable as the employee changed jobs.

Now for the big prize and political success: emulate President Reagan and see that tax reform in one fell swoop is a vote-winner, not the political albatross sometimes argued. For it is only by slaughtering the sacred cows of retirement provision (and mortgage) tax reliefs that the big prize can be gained. The calculations depend on the level of basic pension agreed and the "little list" of other taxes that would be scrapped. My own list includes all higher rate tax, tax on capital gains, inheritance taxes and stamp duty, and argues for a uniform flat-rate income tax at a level not far above 20 percent, including the present employees' National Insurance contribution — I do not forget that the black economy is also caught up into the tax-paying net in a flat rate system. Such a tax would be fair, would be seen to be fair, and raises the same revenue: the only losers would be unemployed actuaries and tax advisers.

Benefits

Now throw away your sheet of paper with columns headed *IDEALS*, *ACTUALS* and *SOLUTIONS*. Consider for a moment the benefits of the system I propose:

1. The State's role is limited to what it is best at, the provision of a universal safety-net, financed by a general taxation system that impacts equally on all forms of income.
2. The employer can be reassured that none of his employees, even after the mythical 40 years' service, need be reduced to the safety-net level.
3. By simplifying the tax system, personal savings become re-established as flexible provision through old-fashioned thrift. Such savings can be used at the individual's own discretion: for retirement, for a new business, or for old-fashioned spending.
4. We become a nation of capitalists, in the restored sense of that word.

Philip Chappell retired from Morgan Grenfell at the end of 1985 after more than 30 years' service, and is now Adviser to the Association of Investment Trust Companies, with a variety of other interests. He has long been interested in tax reform and wider ownership.

References: 1. Social Trends 1987, Table 5.18.

Further reading

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Owners All — Personal Investment Pools, Philip Chappell and Nigel Vinson, Centre for Policy Studies, 1985.

Removal of Private Pension Tax Reliefs: Viewpoint from an Actuary

Geraldine Kaye

There are innumerable difficulties in attempting to remove private pension income tax reliefs piece-meal, and then hoping to use the extra revenue to finance projects like Basic Income. Moreover the occupational pensions movement in this country does a great deal of good work. In many cases it is the means of permitting people to enjoy rather than endure old age. Any excessive benefits to individuals are taxed under the PAYE system. Attempting to remove reliefs or impose additional taxes provides no guarantee of a net increase in revenue to the Treasury and may well result in hardship to the very people BIRG would like to help.

These pension fund tax reliefs can be summarised under 8 different headings:

1. Contributions by employers
2. Contributions by employees
3. Contributions by the self-employed
4. Investment income accruals
5. Capital gains accruals
6. Tax-free lump sums
7. Treatment of pension as earned income
8. Relief in respect of VAT

Tax relief on saving for retirement *via* pension fund contributions has had a considerable influence on the volume of savings channelled through them by both employers and employees. It can be argued that the advantage taken of the tax system by the employer is acceptable on the grounds that it encourages individuals to make provision for their retirement. Those in BIRG who advocate the abolition of tax reliefs for company sponsored occupational pensions, in favour of higher State basic pensions for all, are open to the criticism of trying to bring everyone down to the same level instead of bringing everybody up.

There is nevertheless clearly a possibility that the form of schemes encouraged differs according to the type of tax relief. For example the switch from money purchase to final salary schemes, with the advent of the original rules for contracting out. Contracting out was not the only reason why final salary schemes became more popular, but it was certainly a contributing factor.

In order to show the distortions that different tax treatments can bring, we can look at what happened when people were made to pay interest owed to building societies net of basic rate tax instead of having to claim their tax relief back from the Inland Revenue: not a big change and yet it produced the jump in sales of with-profit endowment assurances shown in Table 1. The

same table shows the effect of removing tax relief on life assurance premiums. Any costings would have assumed a saving of 15% of £194 million. Instead only half of that was sold in each quarter over the following few years. Has the other half gone to a more tax-efficient medium? Could it have gone to pension policies granting marginal relief of at least 30%. Certainly some will have. Although the removal of a tax relief or the imposition of a new tax may give the impression of increasing income to the Revenue, there can be no certainty.

Table 1: Sale of with profit endowments

Year	Qtr	£m
1982	1	57
	2	67
	3	74
	4	91
1983	1	127
	2	231
	3	167
	4	154
1984	1	194
	2	128
	3	105
	4	104
1985	1	99
	2	110
	3	111
	4	122

MIRAS 6th April 1983

Source: Association of British Insurers

In his 1986 Budget speech, the Chancellor announced his intention of legislating on matters relating to pension fund surpluses. A pension fund surplus is essentially the difference between the amount the fund has and the amount it will require to provide the benefits promised to members. It is a moot point how that difference can be decided. At the date of writing (in December 1987) learned papers are still being published on the subject.

On the assumption that it is known that a fund has more money than it needs, then there are three ways in which the fund can react. Obviously it could improve benefits to a stage where it has no more money than it needs (there are complications involved in this); or it could return the money to the employer, in which case tax would be payable at corporation tax rate on the money returned; or the scheme could be partially disapproved, in which case part of the investment income would become subject to tax. Of course, since Black Monday the question of surpluses in pension funds has become largely hypothetical.

However, this case provides a perfect example of the problems that can arise from tinkering with the tax system. The following quotation comes from an article in the August 1986 issue of *Pensions World* by Doreen Bates, a leading expert on the taxation of pension funds:

Surely a heaven sent opportunity. The Chancellor could attack the tax privileges of the approved scheme as he had hoped to do in 1985 but refrained in view of the unprecedented lobbying of the

pension scheme interests; yet his 1986 attack could be represented as a popular move to restrict Revenue discretion and facilitate the rescue of the employer, who would merely have to suffer tax to offset the relief he had received.

The next section of her article dealt mainly with technical problems. Many of them still exist and others have since been discovered. A whole session at an Institute of Actuaries seminar was devoted to them. Her article continues with details of a conversation between herself and the appropriate Treasury Minister. She asked whether the new legislation would apply to all pensions schemes approved by the Revenue as exempt approved. At a public meeting the Minister gave her a categorical assurance that they would. A day or two later the Government Actuary phoned her to say the Minister had had second thoughts, and it was not intended that the legislation would apply universally.

In the same article Bates also wrote:

It was not intended to apply to policy operated schemes (other than schemes on a deposit administration basis and a managed fund), nor to the so-called small self-administered schemes with 12 or fewer members. The reason given for these exclusions was that they were not expected to show surpluses. The investments of the small self-administered schemes were considered by the Revenue to be so well monitored that there was no risk of a so-called surplus. (*Pensions World, op cit*)

Is this the real reason or is it that the Revenue could not cope with the numbers? In 1983 (according to the latest Government Actuary's survey of pension schemes) there were 70,800 schemes with twelve or fewer members per scheme and a further 15,750 schemes with membership of between 12 and 100 members. If one also includes the 2,790 schemes with 100 to 1,000 members, then there are 89,340 "small" schemes in total, compared with 660 schemes with 1,000 or more members. The Revenue would have an administrative headache monitoring all those small schemes.

Another way of considering this matter is that there are 2,700 private sector schemes with funds of £3 million or less, compared with 1,300 schemes with funds in excess of £3 million. The total value of all private sector funds, other than those invested by insurance companies, is £65,000 million. No one has yet been able to make an accurate estimate of the total value of all pension funds, but the author's inspired feeling is that the value is in the region of £150,000 million.

Even when the Chancellor had a heaven-sent opportunity, he seems to have backed down, although only time will tell whether it is a real defeat for him. The subject is being considered only in technical terms, without stopping to consider whether or not the tax on pension fund surpluses, or in fact any tax on pension funds, is desirable.

Contributions to a pension fund by an employer are a business expense, like payroll and other related costs, and there is no obvious reason why they should not be eligible for relief on the same basis. In fact, contributions by an employer to a pensions scheme that fails to obtain approval are nevertheless normally treated as an expense of his business under the normal rules of schedule

D. Another way of looking at the problem might be to ask why contributions paid by employers are not taxed as a benefit in the hands of the employee. Under the present system of occupational pensions, where most schemes are of a defined benefits structure, it would in practice be very laborious to decide each individual's national contribution, and grossly unfair to assume it for the average funding rate. The calculations in Table 2 show that an average company life-time funding rate of (for example) 15% would represent a retrospective level contribution rate ranging from 10% of salary for a low flier to nearly 35% for a high flier. It would therefore be extremely unfair to impose an imputed tax based on the 15% company contribution rate.

At present it is a purely theoretical exercise to consider what revenue would be raised by adding notional employee contributions to income, in order to tax them at the appropriate marginal rates. With the advent of portable personal pensions, it becomes a somewhat more practical proposition.

If employers' contributions were made taxable, the employers might react by increasing salaries in lieu of making contributions, hoping that their employees would make the same contributions. The importance of this last comment depends on how paternalistically one views the subject. One must think very very carefully about whether it is sensible to reduce the attractiveness of occupational pension schemes.

Under the present system, the Treasury foregoes large amounts of tax on contributions and investment income. Its return (from the tax on the pensions) will not happen for many years. A switch to a tax on contributions now and more favourable tax treatment of the ultimate benefit later would ease the current burden on the Treasury. The long-term position would not be so favourable. As the number of old people increases in relation to the number of economically active young people, so the position will be reversed.

The official Inland Revenue estimate of the cost of tax reliefs on contributions in 1983-84 is £2,200 million. This is a considerable under-estimate. The most recent Government Actuary's survey, in respect of the year 1983, puts contributions into pension schemes at more than £17,000 million. If the Chancellor is looking for piece-meal changes, then instead of granting relief at marginal rates, he could grant it at marginal rates less 1%. This would be unlikely to be sufficient to spur schemes or their members into alternative courses of action, unless it were considered the thin edge of the wedge signalling further action. Yet 1% of £17,000 million is £170 million, which is a considerable sum of money. Unfortunately it is nowhere near enough to provide the panacea for a basic income.

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**Table 2: Employers' contributions taxed as a benefit in kind:
Assessment of the value of the contributions.**

(1) Assumptions:

- (i) There is a staff of eight, all starting at age 25 with a salary of £5,000.
- (ii) There is a salary scale within the firm which happens to coincide with the specimen table given in Formulae and Tables for Actuarial Examination.
- (iii) The staff all have a rate of salary progression the personal rate of which is lower or higher than the given scale by a specific percentage, ranging from -2% to +5%.
- (iv) There is in addition a general level of salary increase in excess of inflation of 1% p.a.
- (v) The rate of inflation is 7%.
- (vi) The company contribution to pension is 15% of payroll.

(2) Calculation of contribution value for different employees:

Individual	Salary increase relative to salary scale*	Final salary	Contribution as a % of salary
	%	£	%
1	2	6,500	10
3	0	14,000	15
8	5	100,000	35

*This is in addition to the general level of salary increases in the company overall.

Source: Journal of the Institute of Actuaries No. 451, page 205.

Mutual Responsibility

Malcolm Torry

The following text is taken from a talk given at a BIRG seminar on **Rights and Responsibilities** in May 1987. During the seminar Martin Graham of Family Base spoke against basic income on the grounds that it would weaken the traditional family by undermining financial dependency between spouses. Malcolm Torry works at the South London Industrial Mission. He came to Basic Income after two years on the public counter of Brixton's Supplementary Benefit office. He started his talk by reminding the audience of Jesus' story of the workers in the vineyard who worked unequal hours for equal pay.

It seems to me that the Hebrew-Christian tradition holds up no one social unit as the fundamental unit. In the Old Testament, the individual, the smaller family, the wider family, the tribe, the nation, and the nations together, all have their place. The corporate seems to have been more important then than it is now. The community had a responsibility to care in the broadest sense of that word, and it was the community as a whole which was given the task of preserving *Shalom* which means peace with justice. At the year of Jubilee, every fifty years, the whole nation was commanded to return the land to its original occupants (though whether or not this was done we do not know). The Law, or *Torah*, was a pattern of life for a whole nation, and the individual found his or her place within this corporate covenant with God. The community was bound to see that justice was done in the courts, and that no-one, not even a foreigner, was allowed to sink into total destitution.

I am willing to be corrected, but I know of no talk of *rights* in the Old Testament. There is talk of the responsibilities of individuals towards the community, and of the community towards individuals. Within the Covenant, or agreement between God and his people Israel, God is responsible to the community, and the community to God.

There is no mention of rights, only of mutual responsibility.

The new Testament has much to say about the individual in his or her relationships with other people and with God. There is not much talk about the family, but there is a great deal about the new community which early Christians expected to break in upon the world and which they referred to as 'The Kingdom of God'. There is also a great deal about the Church, which the Apostle Paul saw as a corporate individual, a single organism, which looks forward to the Kingdom of God's coming.

The family, whether the smaller unit or the extended family, rather falls between two stools in the New Testament. It is neither an individual, nor the Kingdom of God, nor the Church. Jesus was ambivalent towards his own family, and even commanded people to 'hate' their

families. He was making the point that allegiance to a coming community must not be compromised on account of allegiance to a temporary social unit.

The letters in the last half of the New Testament contain bits about the family, for we live in families, and relationships were sometimes problematical when some family members were committed to the Church and some were not; but again it is the Church which is the fundamental social unit — a body of people which transcends all boundaries of race, culture, sex and social status. Again, the individual has responsibilities towards the Church, and the Church has responsibilities towards the individual. There is no talk of rights, but there is a great deal of material on mutual responsibility.

Christian history has tended to lose this emphasis on the corporate. Roger Dowley's book *Towards the Recovery of a Lost Bequest* is not easy reading, but it is a good summary of the primacy of the corporate in the Old and New Testaments, and a deeply-felt rejection of Christian history's transposition of this tradition into individualistic terms.

We have become a society of individuals, and in many respects we have ceased to be a community in which different social units find their proper place. Individuals are expected to work out their own salvation, to be their own moral authorities, to decide the truth with their own minds, and to determine their conduct by their own consciences. Yes, of course we need to value the individual, for to neglect the individual's material, psychological and spiritual needs can lead to the exploitation of individuals; but where the sense of a corporate body is lost, there is no longer any corporate responsibility for individuals, and the individual's natural reaction is then to demand rights. The language of *rights* is a protest that community has collapsed, that there is no longer mutual responsibility of the corporate for the individual and of the individual for the corporate.

If we must speak of rights, then let us do so not in opposition to responsibilities, but as an expression of the community's responsibility for the individual. The community's responsibility creates the individual's rights, and the individual's responsibility creates the community's rights. If we must use the language of rights, then let us speak of *mutual* rights, in the same way as we speak of mutual responsibility.

Until January 1987, I was industrial chaplain to St. Thomas' Hospital. At its best the National Health Service is the responsibility of the corporate for the individual, and of the individual for the health of the corporate. It is collapsing, and the neglect of corporate provision for individuals drives individuals into a private health care system in which there is no incentive to provide health education or other preventive measures; and the language of rights appears as an inevitable protest amongst people to whom private medicine is not available. That explains the title of the Church of England's Board for Social Responsibility's recent book *Not just for the Poor*. The Welfare State is 'not just for the poor'; at its best it is mutual responsibility, of the community for the individual and *vice versa*.

In most Western societies income support has always been a bit of a mixture. The corporate body feels responsible for maintaining the income of some individuals, but only the poorest, and only those whom nobody else will

help. This is not true mutual responsibility; it is ensuring that the social order does not collapse. It involves a means test, and it creates two categories of people: those for whom the community is responsible, and those who can look after themselves.

Basic Incomes would restore something of the mutual responsibility that we find in the Biblical literature. There would be a return, in twentieth century terms, to the Jubilee laws: the sharing of livelihood to enable wealth-creation and responsibility for the individual, and the individual for the community. Basic Incomes would enable a variety of social units to flourish, and would give dominance to none.

The pattern of Jesus' activity would be reflected by a BI scheme, for always the gift came first, then the demand. First came the good news of the coming Kingdom of God, then the demand for a new way of living; first came the healing; then the command; first came the welcome, acceptance and forgiveness, then the moral challenge. In this, Jesus was true to his own Old Testament heritage, for in the Old Testament the gift is first: first the exodus from Egypt, then the commandments.

Our work ethic, the Protestant work ethic, has been the opposite of this. I am eternally embarrassed that the Apostle Paul said: 'He who does not work shall not eat.' Whatever the context in which he was writing, he was wrong. It would never have been said by Jesus.

BI would begin for us this most Christian of processes: first the community taking responsibility for individuals, thus enabling individuals to become responsible towards the community. Exhortation will never achieve this; only a new method of distributing wealth can enable attitudes to change. First the community must take responsibility for individuals' livelihoods, and *then* ask individuals to respond by paying taxes, making decisions, and developing those new patterns of work which a BI scheme of whatever sort would make possible. BI would enable people to take responsibility for relationships in the family and in other social groups, instead of having a rigid structure thrust upon them.

A BI scheme might help us once more to think of the corporate first, and of the family, individuals and other groupings as existing within the corporate body. It would be a return to some of the insights about life in community and of the motivation of individuals found in the Old Testament, in Jesus' teaching and actions, and in the New Testament's talk about the Kingdom of God.

Malcolm Torry works at the South London Industrial Mission

References

- Towards the Recovery of a Lost Bequest*, Roger Dowley, Scripture Union/Evangelical Coalition for Urban Mission.
- Not Just for the Poor*, Church of England Board for Social Responsibility, Church House Publishing, 1986.
- Basic Income for All*, Malcolm Torry, Grove Books of Nottingham, 1988 forthcoming.

At Home and Abroad

BIRG Report-Back Conference

BIRG organised a conference on 4th April 1987 to report back to the National Council of Voluntary Organisations the results of its activities to date. It was largely thanks to NCVO sponsorship that BIRG got off the ground in 1984. First speaker at the conference was Andrew Purkis, former Head of Policy Analysis at NCVO, who praised BIRG for its achievements, all of which were the result of voluntary effort. Although NCVO's financial and other support has now come to an end, there was general agreement that BIRG should continue. The scale and nature of future activities would have to depend on funding, but there was a clear majority view that BIRG should continue as a broad network of people interested in integrated reform of tax and social security along BI lines. As a UK section of BIEN, BIRG should facilitate the exchange of information and personal contacts throughout Western Europe. Although those who have done most research into BI now argue for partial BI, it was agreed that those who still believe a full BI is possible should remain within the BIRG network. The scale of future operations would depend almost entirely on funding, but the BIRG Bulletin should continue if at all possible.

AMA Propose a Guaranteed Housing Allowance

In June 1987 the **Association of Metropolitan Authorities** published a report in which they recommended a BI for householders. In **A New Deal for Home Owners and Tenants** the AMA recommended that mortgage interest tax relief, mortgage interest relief through supplementary benefit and housing benefit should all be replaced by a *Universal Housing Allowance* (UHA), topped up by a housing benefit based on housing costs and household income. All householders would receive a flat rate allowance of £10, which is said to reflect the minimum housing cost that all householders have to bear. About 5.5 million would also receive means-tested housing benefit. The AMA argues that their scheme is far more capable of meeting the objectives of a satisfactory subsidy system than existing arrangements. The universal element has the advantages of administrative simplicity and improved take-up and would ease the poverty trap. Additionally the scheme is said to ensure equal and equitable treatment between and within tenures, effective targeting of those most in need, more stimulus to house maintenance and more encouragement to rational housing choices. The effects of the proposal on net incomes were modelled using the IFS Tax and Benefit Model. The net cost of the scheme is estimated to be £4,000 million. About £2,000 million could be raised by abolishing the threshold for inheritance tax and by making the income tax system more progressive. The AMA proposals were discussed at a BIRG seminar on housing in October 1987. See **Books Received**.

International Workshop in Brussels

Alexander de Roo reports: In June 1987 the first meeting of 20 Green and Alternative Parties from 15 West European Countries was held in Brussels. The subject was the future of social security and the possibility of basic income. A report of the conference, some 75 pages in English, is available. The West European Greens tend to favour BI, albeit with reservations. The Swedish Greens are for BI in principle, but think that the work ethic has too strong a hold over their fellow countrymen and women for the idea to catch on. So they keep a low profile on BI. See **Books Received**.

Workshop on Basic Income in the Netherlands

Alexander de Roo reports: In Holland the following organisations in favour of basic income have recently joined forces:

2 Trade Unions:

Foodworkers Union (Voedingsbond FNV)
Christian Industry and Food Union (Industrie en voedingsbond CNV)

2 Political Parties:

The PPR (radical party)
The EVP (a small left-wing Christian party)
AGALEV (the Flemish Green Party)

Several claimants' unions

Working group PvdA: a working group inside the Dutch social democratic party, which gets about 40% of the votes in favour of BI at congress meetings of the Dutch Social Democratic Party.

The aim of the workshop is to influence people, organisations and political parties, and to hold discussions about BI. Its address is: **Werkplaats Basisinkomen, t.n.v. Dagmar Varkevisser, Herman Heiermanweg 20, Amsterdam, Holland.**

Basic Income Initiatives in the European Parliament

Alexander de Roo reports: In November 1986 the draft report by Mr Benedikt Haerlin *Social Security in the European Community (restructuring of the European Labour market)*, which called on the Commission to draw up a plan for implementation of a guaranteed basic income (see BIRG Bulletin No. 6), was voted down in the Social Affairs Committee. Mr. Haerlin gave back his report and Mrs Hanja Mayweggen (Christian Democrats, Holland) took it over and changed the content. The amended report called for introduction of a minimum wage linked to a guaranteed minimum income. These demands were voted out of her report by amendments tabled by the German Christian Democrats. The only amendment of interest that was carried was one asking the European Commission to make a study of basic income.

Mr. O'Malley's Motion for a resolution on a European basic income system (BIRG Bulletin No. 6) became the subject of a six-month struggle between various political

groups, all wishing to make a report about it. The Liberals and the Greens were both interested, but the Christian Democrats, especially the Germans, tried to prevent the Greens from getting it. In April 1987 the Greens won, subject to the proviso that their report must be acceptable to a majority of the Social Affairs Committee. Meanwhile the West German Christian Democrats on the Committee changed their ideas about the future of social security. They now favour a negative income tax. So the Greens prepared a ten page working document on the O'Malley resolution, in which they compare a NIT system with a BI system. Both take the individual as the unit of assessment, and both involve integration of the tax and benefit systems. The author of the document is Nel van Dijk (Greens, Netherlands), and it will be discussed in the Social Affairs Committee early in 1988.

The document estimates that in Holland a BI per person equal to 50 percent of the Netherland national minimum benefit for a married couple can be financed on a revenue neutral basis, by abolishing the Netherlands equivalent of married man's tax allowance (ie the extra tax relief available to single wage married couples by comparison with single people). That works out at a BI per person of FI.750 per month, which is equivalent to about £220. Although it is half the rate for a married couple, it is FI.300 or £88 less than the benefit payable in the Netherlands for an unemployed single householder. Moreover, unlike British supplementary benefit, this amount is intended to cover rent and heating.

The English text of Nel van Dijk's report will be available early in 1988. Obtainable from Alex de Roo, GRAEL in the European Parliament, 79-81 rue Belliard, B-1040 Brussels.

Association des Chomeurs et des Précaires

This association has asked to be kept informed on the following subjects:

- Any articles, reviews, books, journals or bibliographies with information about existing social security systems, guaranteed minimum income or basic income.
- Addresses, bulletins, press articles to do with pressure groups working for a guaranteed income, especially claimants unions.

The Association publishes the journal **CASH**. The address is: **53 avenue des Gobelins, 75013 PARIS.**

Towards an Income and Work Guarantee

Peter Ashby

In this article it will be argued that the key to winning greater public support for Basic Income lies in the debate about the future of work. First of all, however, we must come to terms with the tremendous cultural resistance that would be aroused by any serious advocacy of full-blown BIs — which by definition mean that people do not need to work to secure an adequate standard of living.

If we are committed to achieving mass support for the idea of BI, we need to make an explicit shift in emphasis towards partial BIs, linked to new rights for all to top up their BI through participation in the labour market. This would involve a redefinition of the notion of full employment, away from *full-time employment for some* to *some employment for all*. It would involve the introduction of a new **income and work guarantee**, in which the partial BI would be directly linked to the provision of guaranteed (and mainly part-time) work opportunities.

Shifting the terms of the debate

One of the attractions of locating the debate about BI within the context of the debate about jobs is that it gets us away from the rather sterile positions adopted over the years in the welfare state debate, and particularly the pitting of *universalists* against *selectivists*. That debate has so far been won by the selectivists, who have succeeded in associating selectivity with the positive notions of “value for money” and “targeting”, and in rubbishing universalism as “throwing money at the problem”, and getting “bad value for money” by giving benefits to people who do not need them.

The labour market debate allows us to cut through the old left-right battle and to establish a new terrain, more amenable to fresh thinking and to a radical new approach to meeting the needs of a rapidly changing labour market.

Flexible workers

Perhaps the single most powerful argument for BI lies in its implications for tomorrow’s ‘flexible workers’. Only BI can provide the increased personal security that workers will need in an increasingly insecure labour market, where we will all need to see ourselves as ‘permanent trainees’, all liable to periods of temporary unemployment or under-employment, all moving between one job and another, or (more probably) rearranging our portfolio of mixed income earning.

The vision is one where all workers are given a base on which they can build, sure in the knowledge that whatever changes and uncertainties they face they will always have a measure of security, and the rug will never be completely pulled away from under them. As more and more workers come to see themselves as flexible workers, so they will also come to appreciate the security represented by basic income.

An accelerator for employment-creation

The second major argument in favour of BIs is that the areas of employment where it would be most helpful are also the main growth sectors, namely part-time employment and self-employment. For part-time workers it removes at a stroke the horror of the £5 earnings rule, opening up part-time working to registered unemployed people, who at present are trapped outside it. BI **plus** part-time working should yield an adequate standard of living, whereas part-time working on its own cannot.

In the area of self-employment, the attraction of some sort of BI scheme is underlined by the success of the £40-a-week Enterprise Allowance Scheme, which currently provides cash support for around 100,000 people in their first year of self-employment.

The critical area, as yet unexplored, is the extent to which BIs could provide an accelerator effect for, say, a concerted programme of economic expansion throughout Western Europe. On their own, they would probably not provide a substantial spur to job creation: a stagnant or low-growth economy is unlikely to change dramatically just on account of basic income. But imagine a concerted strategy for economic reconstruction, with BIs introduced as an integral part of the programme. That really could provide a stimulus for new jobs, and on the scale necessary to offer hope to the millions in Europe who today are jobless.

Greatest help for those in greatest need

The third great attraction of BIs is that they would offer most help to those who have been worst affected by mass unemployment, and especially to those who have been out of work for long periods of time. Long-term unemployed people in their late 40s and 50s testify to the appalling age discrimination that keeps them outside full-time jobs. Part-time jobs are nearly always out of the question, because the unemployed cannot afford to give up benefit in order to take part-time work. The £5 earnings disregard with income support makes it hardly worthwhile to work for more than two hours a week — which of course is seldom available. The older unemployed would be liberated by BIs, so would long-term unemployed young people, who have never had a chance to learn the habit of working, and who desperately need the right to earn while they claim. Otherwise they will never be able to build up a track record and compete for jobs.

Taken together these three arguments — personal security combined with labour market flexibility, the

accelerator effect and help for the long-term unemployed — provide an immensely powerful case for BIs, not only in Britain but in most major industrialised countries. Nevertheless, if we are serious in wanting to promote the case for BIs, we must face up to the resistance any suggestion of a full BI scheme is bound to encounter, and reassess our strategy accordingly.

Symbolic policies

The idea of a full BI conjures up powerful symbolic images, such as 'the right not to work', an 'alternative to the work ethic' and 'an acceptance of mass unemployment'. Unless we can repudiate those images, and associate BIs with more positive notions of employment-creation, greater security for flexible workers and part-time working for the unemployed, the idea will be killed before it gets anywhere near the starting post.

We should now embrace fully the idea of partial BIs. This is all that the UK or any other European country could afford for at least the next 20 years. Hermione Parker's costings show conclusively that a full BI scheme would require a tax rate of at least 70 pence in the pound, and decisively put the idea well into the realm of political never-never land. Anyone who wishes to pursue the idea of full BI should therefore either publish alternative costings showing that Parker has over-estimated the cost, or accept that they are not seriously in the business of political change.

There is a dangerous tendency to compromise on the issue of full versus partial BI, and say (begrudgingly) 'Oh well, we might only be able to afford partial BI in the short-term, but what we still really want is a full BI scheme'. We must decide, once and for all, if we are aiming for a society which pays all its citizens a BI sufficient on its own to give them a real choice over whether or not to work. My own belief is that that would not have the slightest chance of winning the support of more than a tiny proportion of the electorate.

Those of us committed to winning political support for BI should firmly reject the vision of full BI.

What does this leave us with as a communications strategy? It leaves us with the exciting vision of a world of work, changing to meet the challenge of a new guarantee made by society to all its members: a modest but unconditional BI, which they would be able to top up through a new right to work.

Redefining the right to work

It should be a central part of the communications strategy to make clear that advocates of BI positively want people to work, because some of our self-fulfilment and some of society's perceptions of our worth do come through labour market participation. It is precisely because we want people to work that we provide a BI that helps people when they are in work (as a credit against their tax) as well as when they are out of work (as a cash benefit). Yes, we should challenge the tyranny of a work ethic that has destroyed so many unemployed people's lives, because they believed the only way of proving their usefulness was through the

labour market. Yes, we do wish to upgrade the value society attaches to caring in the home, and to many forms of unpaid work. But on no account do we wish to rubbish the work ethic. Instead we want to change it and set it in a fuller context.

A strategy along those lines would end the rather apologetic way in which some people approach the issue of topping up a partial BI. Topping up is not a short-term expedient. It is a central part of the vision.

An unconditional right

Let it be crystal clear that the partial BI would be an unconditional right of citizenship. This is essential to the scheme being understood by everyone which in turn is essential if people are to perceive the equality BIs would give them in their relationships with the labour market. If the BI were made conditional on any sort of work test, we would resurrect the current nightmarish labyrinth of rules, regulations and inequalities, and would undermine the effectiveness of the new guarantee.

Our communications strategy should therefore focus on the need for society to do all in its power to hasten the return to full employment — on new terms. Those terms must recognise the needs of flexible workers for greater personal security, they must end the restrictive earnings rules that trap registered unemployed people outside the labour market, and they must boost the process of job-creation in the key growth areas of part-time working and self-employment.

The vision would link BIs as closely as possible to increased work-sharing. We would also argue positively for BIs as part of an overall programme for the redistribution of resources towards those in greatest need.

A new Income and Work Guarantee

An income and work guarantee is the only way to resolve the dilemma that partial BIs are probably the only generally acceptable version of Basic Income, yet would, by definition, leave people with a less than adequate living standard. What if society could not, or would not, provide people with the right to top up their BIs? If that were to happen, we would have cut the living standards of claimants and we would hit the very people we are most concerned to support.

That is why the new income and work guarantee must be seen as part of a single package, that stands or falls as one. The new work guarantee, which would in its early stages be offered to everyone who was registered as unemployed, must go hand-in-hand with the phased introduction of partial BIs.

This is a daunting task, but not quite so ambitious as may at first appear. Most of the guaranteed jobs need only be part-time, and they need only provide sufficient earned income to top up the partial BIs to whatever may be considered an adequate living standard. In some areas of the service sector, and especially the caring services for the very elderly and the very young, certain bands of employment could become 'demand-led', so that jobs would be created directly in response to the demands

of the unemployed for work. The State would undertake to provide part-time work for unemployed people. It would affirm both the right and the responsibility of the unemployed to take up that work — work that we all know is crying out to be done.

In order to prevent this becoming a charter for yet more low-paid work, the jobs could easily be underpinned by an hourly minimum wage, the minimum wage making much more sense because it would sit on top of a new minimum safety net (the partial BI), underpinning the whole labour market.

Strategy for the 1990s

To sum up, different visions have begun to emerge through the work of the Basic Income Research Group for the future of our society. One vision features a society offering full BIs, giving people the right **not** to work, by guaranteeing an adequate living standard without work. These BIs would be financed by massive personal tax rates, and possible new taxes on capital. An alternative vision is of partial BIs linked to a new work guarantee, in order to establish a new right to work for all.

Partial BIs would modify but not uncouple the link bet-

ween income and employment. They would modify but not repudiate the traditional work ethic. The debate about BI and the debate about the future of work must now be linked. If we allow BI to be seen as an **alternative** to getting unemployed people back into work, the idea will be stillborn. Only by demonstrating that BIs are the best way to restore the right to work can we hope to win genuine mass support — from employed people concerned about their own future security, and from unemployed people who time and again say that they want a higher income **and** the right to work.

How should we go about developing the *income and work guarantee* as a coherent package geared to the needs of tomorrow's labour market, and as the only strategy capable of meeting the needs of unemployed and employed people alike? That is the key issue. The priority now is to ensure that well-considered proposals for a new income and work guarantee in the 1990s are at the centre of the general election campaign in 1991.

Peter Ashby is director of ACTION, an independent charity set up in October 1986 as a voice for the long-term unemployed. He is also Trades Union Fellow at St. George's House, Windsor Castle, where he is conducting an enquiry into the feasibility of an income-work guarantee.

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