

BIRG
Basic Income Research Group

BULLETIN

BULLETIN NO3 SPRING 1985

£1.75

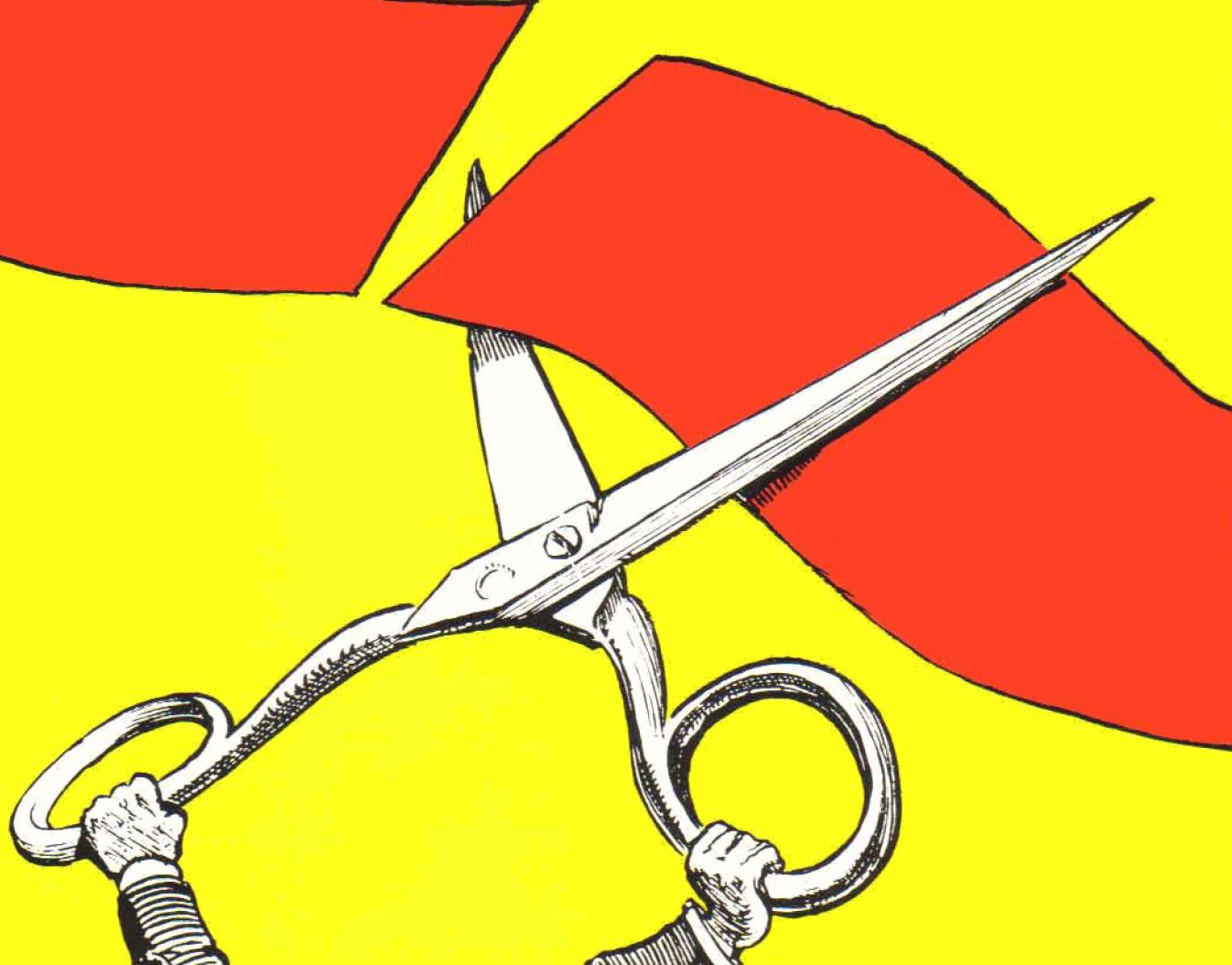
INCLUDES:

COSTING
BASIC INCOMES

Hermione Parker

VIEWPOINT

VANISHING BENEFITS
FOR YOUNG PEOPLE



EDITORIAL COMMITTEE

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

If you would like to contribute to the next edition of the Bulletin, please contact Peter Ashby at 26 Bedford Square, WC1 by **Tuesday, 30 April** (telephone 01-636 4066).

APPEAL FOR SPONSORS

In the second edition of the Bulletin we appealed for sponsorship from all organisations and individuals who share our belief that there must be far-reaching changes in social security and personal taxation policies.

We are delighted that literally hundreds of individuals and voluntary organisations have agreed to sponsor the Group. If you have not yet become a sponsor, we hope that you will consider joining us by completing and returning the form on the back page.

Sponsors are not committing themselves to support a Basic Income scheme. Rather, they are committing themselves to encouraging public debate about the desirability and feasibility of Basic Incomes.

The Research Group urgently needs financial assistance, and some contribution from sponsors would be appreciated. All sponsors will automatically receive this Bulletin and will be invited to attend a national conference in 1986 to consider the progress of the research programme.

BIRG BULLETIN

BIRG EDITORIAL, Spring 1985

"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."

These are the opening sentences of the Constitution of the Basic Income Research Group or BIRG. They define a Basic Income scheme.

The main purpose of the research group is to find out whether such a scheme is feasible, and if not, whether modifications can be devised which would make it feasible.

The possibility of reform along these lines deserves serious consideration, as was recognised in 1983 by an all-party Sub Committee of the House of Commons Treasury and Civil Service Committee. It rejected schemes which involve high rates of tax on people with low incomes, and recommended that Government put work in hand to examine the feasibility of the basic income approach to reform of personal income taxation and income support. And it also recommended that "changes to the present system should be compatible with an eventual move to an integrated structure of tax and social security."⁽¹⁾

BIRG is not aligned to any political party. As its name implies it is concerned primarily with research. Future editions of the Bulletin will report on the progress of the research programme. But the Bulletin will also serve as a forum for ideas and discussion. In this edition we publish an article by Hermione Parker, who questions the economic feasibility of full-blown Basic Income schemes, and outlines two costed options for modified "Basic Income Guarantee" or "BIG" schemes. We also publish an article by Douglas Smith which demonstrates the relevance of the basic income concept to reform of income support for students and trainees.

Hermione Parker's article shows that a modified Basic Income scheme could be introduced by a government prepared to treat social security benefits and income tax reliefs together. But the case is still not fully proven, because the costings take no account of the likely future effects of basic incomes on the labour market and on the tax base. In a future issue we shall investigate these effects, and we shall also raise the question of **rights and responsibilities**. Would basic incomes encourage or discourage paid work? Would the black economy increase or diminish?

These are difficult questions, but they must be confronted. They are moreover the same questions which the Government should be asking about the existing tax and benefit systems. Instead we have a series of social security reviews which merely nibble at the edges of benefit reform, and from which tax reform is excluded. One of BIRG's objectives is to hasten the day when income security (benefits **and** tax reliefs) become the responsibility of a single government agency.

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(1) House of Commons: Third Special Report from the Treasury and Civil Service Committee, Session 1982-83:
The Structure of Personal Income Taxation and Income Support. May 1983. HMSO 386. £7.60.

VIEWPOINT

A NEW DEAL FOR ALL

KEITH ROBERTS

The Basic Income is designed to have far-reaching advantages for everyone in the country, and indeed for the country as a whole. It combines the compassion of the Welfare State with the efficiency of the free market.

Year by year there has grown up an elaborate, untidy and discriminatory tangle of Social Security benefits and income tax allowances that few people can fully understand and fewer still can justify. The present system is most unjust to those who are in most need of help, especially the poor and the unemployed. A Basic Income scheme would replace virtually the whole of this complex muddle by one single basic subsistence income, payable as of right to all individual citizens, young and old, male and female, married and unmarried, just so long as they reside within the country.

The Basic Income would be enough to live on in a modest way and fulfil most of the functions of the Welfare State. There would need to be special provisions for the sick, the handicapped and the disabled. But beyond this basic level, anyone will be at liberty to receive whatever earned or unearned income they can in the free market: such income will be taxable, but there will be no means tests, no poverty trap – and no snoopers. The cost of the scheme, which need be no more than that of the present system, could be met by income tax and VAT, National Insurance contributions by workers and employers alike should be abolished.

With modern technology the Basic Income could be paid automatically each week by computer into personal Giro accounts. No cheques need be sent out and no one need queue for payment. Most adults would receive the same standard amount, about equal to the present unemployment benefit or retirement pension for a single person; young children should get less according to age and the very elderly a little more. Because the amount would depend only on age the scheme would need much less administration than the present DHSS. Everyone would be assessed individually for income tax instead of by family unit as at present – an advantage in these days of changing family relationships. Those with nothing but their Basic Income would pay no tax, and beyond this level the tax rate could be organised to increase smoothly and progressively from zero without discrete tax bands.

Such administrative reform would greatly relieve and might well eliminate the unemployment problem; it would discourage the black economy because people keep their basic wage when they start earning, instead

of giving it up as at present; it would provide an incentive and a possibility for the modernisation of British manufacturing and service industries and for the introduction of new technology; and it would have particular social benefits for young people, for women and families, and for the old.

Let us consider unemployment. Every individual or family needs a certain minimum subsistence income in order to live. Ideally this, and more, is provided by an employer. But it may happen that no employer can afford to pay even the minimum level, either because of shortage of demand for his products, or because of competition from abroad or from machines, or because potential employees lack training or need re-training in the necessary skills – or for many other reasons, all of which become more critical during a time of rapid technological advance like the present.

Now, when people in modern societies lose their jobs, we do not allow them and their families to starve, as early economists like Adam Smith, Ricardo and Malthus assumed; a subsistence income is in fact provided by the State. Unfortunately the social security system, originated and extended with the best intentions, has by now become extremely complex and expensive – not only in Britain, but in other European countries and in the USA. It requires means tests and investigation of private family circumstances and relationships – such as the cohabitation rule – and it gives rise to the poverty trap – whereby a family man earning £100 a week may actually be worse off than if he earned £50 – thus discouraging or preventing people from working, even though there is much work that needs to be done.

We can see the result all about us: an increasing polarisation between the unemployed or otherwise deprived who live on hand-outs, and the employed, who tend to guard their jobs at the expense of industrial efficiency. Further, there is an elaborate and not very efficient pattern of subsidies to depressed regions and industries as well as job-creation schemes.

The great advantage of a Basic Income scheme is that it would make the employment market more flexible: the distinction between the employed and the unemployed would largely disappear. Although for most employers and most workers the situation would no doubt remain much the same as now, the marginal employer need no longer pay the subsistence component of income, which is a major proportion of his costs in low-wage industries. This would benefit depressed regions and firms and many public services as well as new small industries. Those who are now unemployed should always be able to find some work to supplement their Basic Income, possibly only part-time or at relatively low wages, but nevertheless without the discouragement of the poverty trap with its effective

tax rate of virtually 100 per cent. Just as important, it would also enable many more people to take on voluntary rather than paid work if they so wish.

In return for the guaranteed income, we should be prepared to give up statutory, ie government-backed, controls covering minimum wages, employment protection and compulsory redundancy payments. These things can be counter-productive, for they tend to increase unemployment by discouraging employers from hiring new staff: they defend the jobs of the haves against the possible jobs of the have-nots. In fact the protection afforded by Basic Income should make such controls unnecessary.

The Basic Income should replace the present retirement pensions, and the concept of a fixed national retirement age would no longer be relevant. Since people age at different rates some will wish to retire early, while others who feel active may carry on working for many years, possibly part-time or in new occupations. Indeed people are living longer and although earlier retirement is sometimes advocated in order to mitigate the unemployment caused by automation, in the USA an increase in the retirement age is being sought.

What are the other advantages? There is space to mention only two. First, a simple and credible version of the free market system, one that will work in the exciting years of new technology which lie ahead. Because everyone would receive the basic subsistence component of income from the State, the labour market could operate freely as the classical economists assumed and as their modern disciples advocate. There would be a positive incentive and opportunity to anyone to work for additional income who wished to do so, without the stigma of the black economy. There would be less reason to resist automation. The government would be relieved of the need to operate a complex, unpopular and increasingly expensive social security system, to subsidise ailing industries and regions or introduce job-creation schemes, and could concentrate on strategic industrial issues, on the balance of payments, and on regulatory aspects such as health, safety and the environment. Firms could compete more freely with their overseas rivals.

Second, an important advantage for families, particularly for children, young people, women and the elderly. Mothers with small children would have several choices. They could either decide to stay at home and rely on the Basic Income, or work part-time or full-time, using their Basic Income to pay someone to look after the children. Many would probably decide to work part-time mornings or afternoons, and to mind each other's children. Young people should be able to find work more readily, and the elderly could take on part-time work if they wished to do so.

Some may say that the country cannot afford a Basic Income for everyone, and certainly the amount to be distributed by the government is large. However, this need not be a net cost to the country. Everyone receives at least a basic subsistence already; few starve. All that would be changed is the route by which the money is distributed. Nor need there be any net increase in personal taxation. The average family would pay somewhat more in actual tax, partly due to the removal of personal and marriage allowances and

mortgage interest relief, but all its members, young and old, male and female, would receive a Basic Income to balance this. National Insurance contributions by employers and employees would also be removed. Since many people would be able to work who now cannot do so, and since the administrative machinery would be simplified, the Gross National Product should rise.

The Basic Income cannot be brought in at its full level immediately; this would be impracticable. But it could be implemented progressively over a period of 10 years, during which the present social security system could be gradually wound down and the tax system simplified. Other controls and restrictions on employment and wages could be removed once it is seen that they are no longer needed.

Keith Roberts is the author of "Automation, Unemployment and the Income Distribution Problem", available from book-sellers or direct from the European Centre for Work and Society, P.O. Box 3073, 6202 Maastricht, The Netherlands, £2.25 including postage.

COSTING BASIC INCOMES

HERMIONE PARKER

1. ARE BASIC INCOMES A VIABLE OPTION?

By far the most important research project which the Basic Income Research Group must undertake is to establish whether it is possible to fund adequate levels of basic income at acceptable rates of tax. Without detailed costings there is a credibility gap.

It is important to emphasise and re-emphasise that the basic income approach to tax/benefit reform is no panacea. A basic income system is subject to all the constraints and limitations which characterise income maintenance systems worldwide. There is no magic wand which will suddenly turn poverty into plenty. Nor is there any way to get two pints out of a one pint pot. Formulating an income maintenance strategy is like walking a tight-rope, trying to balance the twin aims of adequate benefit levels and economic efficiency. Inadequate benefits produce immediate poverty. Too little emphasis on economic efficiency produces poverty later on.

The formula for costing a basic income or BI system is conceptually quite simple. Add together the costs of the proposed basic incomes (BI), the estimated costs of administering the new system (A), and the costs of abolishing existing income tax, Advance Corporation Tax and national insurance contributions (IT, ACT and NIC); then deduct the anticipated savings on existing public expenditure (S),⁽¹⁾, divide the balance by the estimated new income tax base, and multiply by 100:-

$$\text{Tax rate} = \frac{\text{BI} + \text{A} + \text{IT, ACT \& NIC} - \text{S}}{\text{New IT base}} \times 100$$

It is necessary to include the cost of abolishing existing income tax and national insurance contribution because the revenues are used to fund expenditure programmes other than social security, for instance the health service and education. Thus in 1982-83 receipts from income tax, advance corporation tax and national insurance contributions came to over £51 billion, whereas expenditure on cash benefits was about £35 billion.

The new income tax base is an estimate of the total of personal incomes, calculated using the Inland Revenue *Survey of Personal Incomes*. It is often assumed that the income tax base is equal to income based

Gross Domestic Product, or National Income. But this is not the case. For 1982-83 the Inland Revenue has estimated an income tax base (assuming taxation of all personal income except the Basic Incomes), of about £163 billion, whereas income based GDP (which includes employers' contributions, trading profits of companies, trading surplus of public corporations etc, as well as income from employment, self employment and rent) in the national statistics was about £244 billion.⁽²⁾

A full-blown Basic Income scheme without any means-tested benefit (as described by Keith Roberts), would be extremely expensive and would almost certainly fail to achieve BIRG's main objective, which is the prevention of poverty. Using financial year 1982-83 I have calculated the tax rates necessary to finance four possible versions of a full-blown Basic Income system. Even the most expensive, which would require a tax rate of 86% on all other income, would not provide 100% protection against individual poverty, and would almost certainly lead to national poverty because it would undermine work incentives. There is inadequate protection against housing costs above £20, and no allowance is made for the special needs of disabled and handicapped people. Some people would end up worse off than under the present system, whilst others would receive more in basic income than they require.

OPTION 1: TAX RATE 86%

Each adult receives a BI of £29.70 which is the November 1982 longterm supplementary benefit rate for a single householder, plus £20 to cover housing costs. The total is £49.60 (say £50).

Each child receives £15.

Annual cost of the BIs is:-

	£ billion
44 million adults × £50 per week × 52 weeks	114.4
12.3 million children × £15 per week × 52 weeks	9.6
TOTAL COST	124.00

Using the formula described above, with administrative costs estimated to be £0.2 billion, costs of abolishing income tax, ACT and NIC £51.52 billion, savings on existing expenditure £36 billion⁽¹⁾, and a tax

(1) Social security benefits (including administration costs); Manpower Services Commission grants and allowances; maintenance element of student grants; free school meals; costs of administering income tax; cost of rate rebates.

(2) Central Statistical Office Monthly Digest of Statistics Dec 1984 Table 1.2

base of £163 billion, the tax rate on all income other than the BIs is 86%:

$$\text{Tax rate} = \text{£bn } 124.00 + 0.2 + 51.52 - 36.00 \times 100 = 86\% \\ \text{£bn } 163.00$$

OPTION 2: TAX RATE 70%

Here there is an attempt to economise by restricting the £20 for housing costs to householders. This introduces administrative difficulties but is theoretically more cost-effective. In the UK there are about 44 million adults (age 16 and over), but only about 20 million households. Assuming no other changes the annual cost of the basic incomes would be:-

	£ billion
44 million adults × £29.60 per week × 52 weeks	67.7
20 million householders × £20 per week × 52 weeks	20.8
12.3 million children × £15 per week × 52 weeks	9.6
TOTAL COST	<hr/> 98.1

Using the same formula as before, but allowing an extra £100 million for administration, the tax rate becomes 70%:-

$$\text{Tax rate} = \text{£bn } 98.1 + 0.3(?) + 51.52 - 36.00 \times 100 = 70\% \\ \text{£bn } 163.00$$

OPTION 3: TAX RATE 60%

Further economies can be made by cutting the adult basic income to the November 1982 ordinary supplementary benefit rate for a single householder, and by cutting the rate for children to £13. This option is considerably cheaper, but it would leave retirement and invalidity pensioners worse off than at present. Assuming no other changes the annual cost of the basic incomes is:-

	£ billion
44 million adults × £23.25 per week × 52 weeks	53.2
20 million householders × £20 per week × 52 weeks	20.8
12.3 million children × £13 per week × 52 weeks	8.3
TOTAL COST	<hr/> 82.3

The tax rate is 60%:-

$$\text{Tax rate} = \text{£bn } 82.3 + 0.3(?) + 51.52 - 36.00 \times 100 = 60\% \\ \text{£bn } 163.00$$

OPTION 4: TAX RATE 57%

A still cheaper option would involve cutting the adult basic income to £18.60, which was the November 1982 SB rate for a single non-householder, and increasing the householder basic income by £4.65, which was the November 1982 difference between the SB rates for single householders and non-householders. Each £1 by which the adult basic income is reduced saves over £2½ billion a year, whereas each £ of householder basic income costs about £1 billion, so there is a net saving of £6 billion. The annual cost of the basic incomes becomes:-

	£ billion
44 million adults × £18.60 per week × 52 weeks	42.6
20 million householders × £24.65 per week × 52 weeks	25.6
12.3 million children × £13 per week × 52 weeks	8.3
TOTAL COST	<hr/> 76.5

The tax rate is 57%:-

$$\text{Tax rate} = \text{£bn } 76.5 + 0.3(?) + 51.52 - 36.00 \times 100 = 57\% \\ \text{£bn } 163.00$$

In 1982-83 the total cost to the Exchequer of income tax reliefs (tax expenditures) and cash benefits (cash expenditures)⁽¹⁾ was less than £70 billion. So even Option 4 involves a big increase. Yet it comes nowhere near to preventing poverty. Pensioners (including invalidity pensioners) would in many cases be worse off than at present, and so would an unknown number of householders, because supplementary benefit pays rent and rates in full in addition to the scale rates. Nor do any of these options tackle the extra costs of disability. Since the new tax rates assume abolition of employers' national insurance contributions some of the new income tax could be funded by an employers' payroll tax. A 10% payroll tax would cost employers about the same as the total of 1982-83 employers' NI contributions plus contributions to contracted-out earnings-related pensions. Even so the new tax rate on employees (at least 47%) seems unacceptable.

2. UNIVERSALITY VERSUS SELECTIVITY

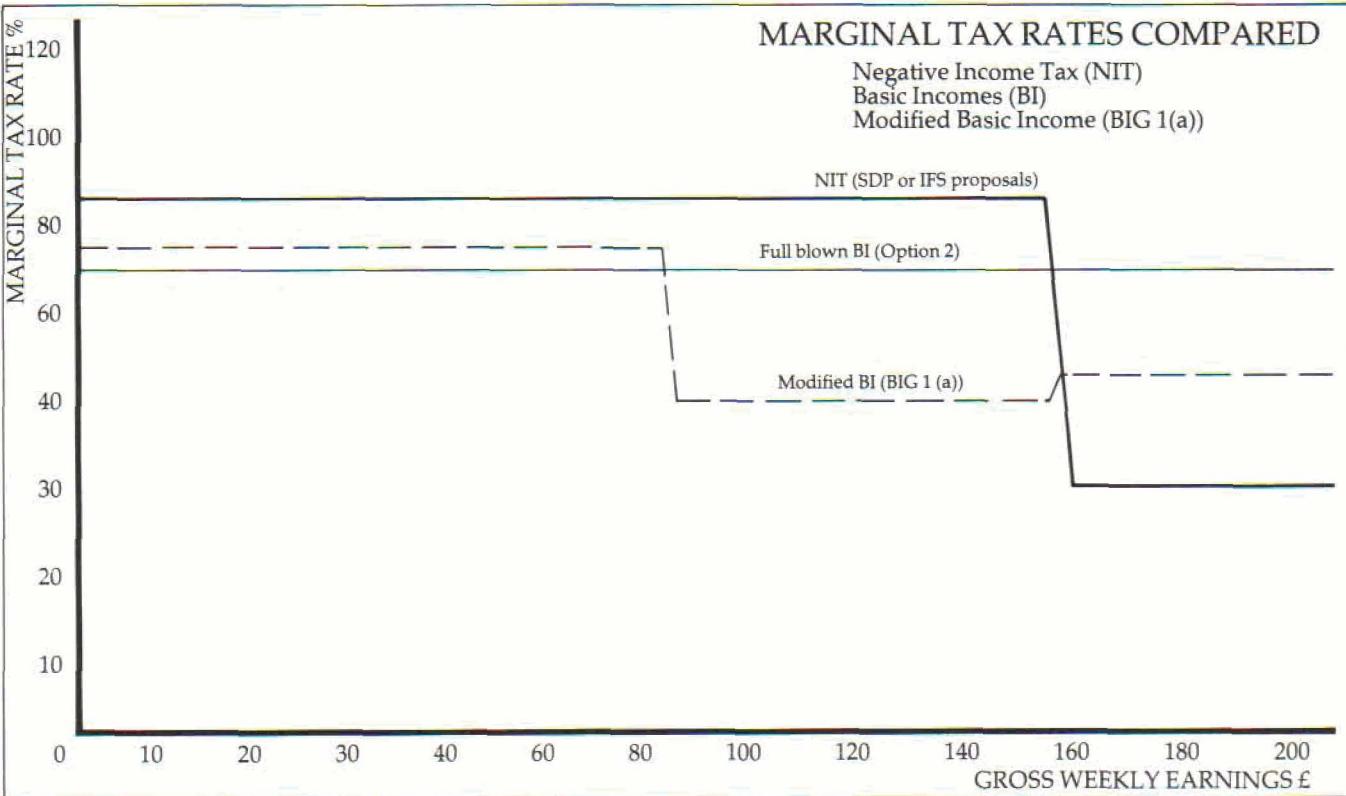
Within integrated tax/benefit reform there are two main alternatives:-

- (1) Basic Income (or social dividend).
- (2) Negative or reverse income tax.

Basic income is universalist whereas negative income tax (NIT) is selectivist. It is commonly supposed that selective systems are more efficient than universal systems, because they concentrate maximum assistance where the need is greatest, whereas universal benefits are "given to everyone". This is an oversimplification. Universal systems look more expensive because they claw back benefit from the better off through the tax system, using taxes which are either flat rate or gently progressive, whereas NIT withdraws benefit from the lower paid at rates which are far in excess of even the highest income tax rates charged on the well-to-do. Consequently tax break-even points (where benefit received equals tax paid) are much lower down the income scale with a negative income tax than with a basic income system. And this is why a negative income tax system is less expensive, or looks so in year one. More people are subject to very high marginal tax rates⁽²⁾, but the standard rate of tax for the rest of the population can be lower than with a basic income system.

(1) All cash benefits, not just DHSS benefits

(2) The **marginal tax rate** is defined as the amount of income forfeited by the wage earner from each extra £ earned, on account of tax or benefit withdrawal.



These differences are illustrated in the graph above. An understanding of these concepts is essential in order to understand the characteristics and implications of different tax and benefit systems. A selective system certainly looks more efficient in year one, taking a static view of the economy. The difficulty is that no one can calculate the longterm effects on growth, and the tax base, of subjecting large numbers of lower paid wage earners to very high marginal tax rates.

Take for example the tax/benefit reform proposals put forward by the Social Democrats⁽¹⁾ and the Institute for Fiscal Studies⁽²⁾. These would subject more than a third of families with children to marginal tax rates of 85% and 84% respectively. No attempt has been made to calculate the labour market effects of such very high tax rates. Yet it would be astonishing if they did not erode the tax base as families sought refuge in the black economy. A full blown Basic Income scheme with high benefit levels financed by a high rate of tax would almost certainly have a similar effect.⁽³⁾ **The best solution, in my view, is a judicious combination of both universality and selectivity:**

"The exact mix can only be discovered by comparing tax rates required under each system, assuming given benefit levels, and working out the numbers of people likely to be affected by high marginal tax rates. In the long term the crucial factor is the effect of any system on the tax base. Shared prosperity requires a growing tax base. It is incompatible with a system which imposes high marginal tax rates on large numbers of people. Therefore **means-tested benefit ceilings should be kept as near as possible to the bottom end of the income range (half to twice the average) where most incomes are concentrated.**"⁽⁴⁾

3. MODIFIED BASIC INCOMES. TWO COSTED BASIC INCOME GUARANTEE OPTIONS

In this section I shall describe just two of many possible options for a modified or partial basic income system, using a mixture of universality and selectivity. These two options, which are generally referred to as **Basic Income Guarantee or BIG schemes**, revise and up-date the evidence submitted to the House of Commons Treasury and Civil Service Committee Sub-Committee Enquiry into *The Structure of Personal Income Taxation and Income Support*⁽⁵⁾ by Sir Brandon Rhys Williams in July 1982. They have been costed using tax base figures supplied by the Inland Revenue for financial year 1982-83. Revenue neutrality in this instance is rather narrowly defined. It permits abolition of income tax reliefs and social security benefits (in order to finance the basic incomes), but it does not take into account possible savings from abolition of other subsidies (for instance agricultural subsidies), nor changes from direct to indirect taxation. At this stage it seems preferable to limit the field in order to increase credibility.

(1) *Attacking Poverty*, SDP Green Paper No. 11. 1981
Poverty, Taxation and Social Security, SDP Policy Document, No. 8. 1983

(2) *The Reform of Social Security* A.W. Dilnot, J.A. Kay, C.N. Morris, Clarendon Press, Oxford, 1984

(3) For information on the labour market effects of negative income tax see the *Final Report of the Seattle-Denver Income Maintenance Experiment* US Department of Health and Human Services, May 1983. And the results of other U.S. negative income tax experiments.

(4) Quoted from "Action on Welfare" Hermione Parker, Social Affairs Unit, 2 Lord North Street, London SW1P 3LB. 1984. Page 24.

(5) Volume "Minutes of Evidence" page 420

Tables 1 and 4 show the proposed basic incomes at both 1982-83 and 1984-85 prices. But the latter are a straightforward uprating of the earlier figures in line with supplementary benefit upratings over the same period. They have not been recosted. Note also that "BIG" is intended to operate from April to April, therefore the basic incomes are not increased in November. In year one of the scheme this might mean some loss of spending power over the November to April period. But in most cases the proposed basic incomes provide spending power, once the new housing benefit is taken into account, which is above the November 1984 levels.

The *sine qua non* of both these "BIG" options is to mop up existing benefits and tax reliefs into a single integrated tax/benefit system, which makes no distinctions on grounds of work or marital status, and which treats each man, woman and child as an equal citizen. But the system is made more efficient by introducing elements of selectivity. In BIG 1(a), for example, no attempt is made to cater for the housing needs of able-bodied, working age adults through basic incomes, except perhaps in the case of lone parents. Instead there is a new means-tested housing benefit. On the other hand much higher rates of basic income are provided for those with higher basic needs and low earnings potential (the old and the longterm sick and disabled). This helps to limit the number of people who would need to claim the new housing benefit, and who would be at risk from high marginal tax rates.

The new income tax replaces existing income tax, advance corporation tax and employees' national insurance contribution. It would start at 40%, payable on all income except the basic incomes. Progressive tax rates, as shown below, are necessary in order to prevent net income gains for people in the middle and upper reaches of the income distribution. The extra revenue from the higher rate tax bands is estimated to be £4 billion.

Proposed income tax rates

0 to average earnings	40%
Average to twice average earnings	45%
Twice to three times average earnings	50%
Three to four times average earnings	55%
Four times and above	60%

Employers would pay a 10% payroll tax. The sum raised would be about £12.8 billion, which is approximately equivalent to 1982-83 employers' national insurance contribution plus contracted-out earnings related pension contributions. A payroll tax has the advantage that it would remove the incentive for employers to take on workers part-time for earnings below the national insurance lower earnings level, as they frequently do now, in order to escape liability for paying the contribution.

The new "BIG" housing benefit would comprise:

rent
local authority rates
water rates
householder component
heating
but NOT mortgage interest.

"BIG" housing benefit would be phased out by 33 pence in the £, giving maximum marginal tax rates of 73%. It is therefore essential to restrict the number needing housing benefit. We should aim at housing benefit ceilings below two thirds average earnings. Another "BIG" option is costed to include abolition of domestic rates. This would greatly reduce dependence on housing benefit, but would raise the starting rate of income tax to 45%.

Pensioners and the longterm sick and disabled

Everybody over age 64, and anyone below age 65 with a registered handicap or disability, would be entitled to an old age supplement or an invalidity supplement on top of their basic incomes. For instance every person aged over 64 would receive £21.50 + £27.50 = £49.00, which would be tax-free and without any earnings restriction or test of means. There would also be a new disability costs allowance, to replace and augment existing supplementary benefit additional payments, mobility allowance, attendance allowance and so forth.

All supplements in TABLE 1 are added to the appropriate basic incomes. For instance a man, pregnant woman and two children would receive:-

	£
First adult	21.50
Second adult	21.50
Expectant mother's supplement	15.00
First child	15.00
Second child	15.00
TOTAL basic incomes	88.00 + housing benefit

And a man with a registered invalid wife and two children would receive:-

First adult	21.50
Second adult	21.50
Invalidity supplement	27.50
First child	15.00
Second child	15.00
Disability costs allowance	Variable
TOTAL basic incomes	100.50 + disability costs allowance + housing benefit

The wife's invalidity supplement and her entitlement to a disability costs allowance would depend solely on the degree of her disability and the extra costs resulting from it. Age, sex, marital status and employment status become irrelevant, except that nobody could draw both an old age supplement and an invalidity supplement. But they could draw an old age supplement and a disability costs allowance, to cover the costs of attendance and so forth.

"BIG" 1(a) is a radical reform option, with the emphasis on simplicity. All available resources are concentrated on the basic incomes, in order to reduce dependence on means-tested housing benefit, and thus make lower paid work and voluntary savings worthwhile. All income tax reliefs are abolished, and so is State earnings related pension. There is no householder basic income. Looking at the figures in TABLE 1 there seems to be a case for re-structuring the age and invalidity supplements to include a householder element. This would reduce the gains from the

scheme for two person households and increase the gain for single householders. But there are also disadvantages. The scheme would be more difficult to administer, and it might discourage pensioners and disabled people from moving in with friends or relatives.

BIG 1(a) COSTINGS

The 1982-83 costings produced a starting rate of income tax of 40%, made up as follows:

$$T = \frac{A + B + C + D - E - F - G \times 100}{H} \quad \text{£bn } 65.13 + 1.25 + 0.5 + 51.52 - 36.00 - 12.8 - 4.00 \times 100 = 40.24\% \quad \text{£bn } 163.00$$

where:

- A = cost of basic incomes
- B = cost of BIG housing benefit
- C = administration costs
- D = cost of abolishing income tax, ACT and NIC
- E = savings on existing expenditure (see Note (1) page 1)
- F = employers' payroll tax
- G = revenue from new higher rate tax bands
- H = new income tax base

TABLE 1: Basic Income Guarantee 1(a) PROPOSED BASIC INCOMES

State earnings related pension and all income tax reliefs abolished. Starting rate of new income tax is 40%. National insurance contributions are abolished. New 10% employers' payroll tax.

CATEGORY	POPULATION NUMBERS m	1982-83 BASIC INCOMES		1984-85 BASIC INCOMES
		Weekly rates £	Annual cost £b	Weekly rates £
1. BASIC INCOMES				
Each adult	44.0	18.60	42.56	21.50
Each child (0-15) years	12.3	13.00	8.31	15.00
2. BASIC INCOME SUPPLEMENTS				
Each householder	19.9	—	—	—
Each expectant mother	0.7	13.00*	0.24	15.00*
Each widow/widower	0.3	18.60*	0.15	21.50*
Each lone parent	0.93	11.00(?)	0.53	12.50(?)
Each person aged:-				
65-84	7.8	23.65	9.59	27.50
85 and over	0.6	28.65	0.89	32.50
Each invalid or handicapped person under 65	0.9(?)	23.65	1.11	27.50
3. DISABILITY COSTS ALLOWANCE	?	variable	1.75 65.13	variable

PLUS MEANS-TESTED HOUSING BENEFIT

At nil earnings a working age claimant gets: £5.35 householder element (1984-85 rate)

+£2.05 heating
+rent
+rates
+water rates

For people in receipt of age or invalidity supplements the housing benefit formula is: housing costs – (basic income – November 1983 SB including heating addition)

Taper is 33%

No mortgage interest would be payable with housing benefit.⁽¹⁾ New mortgagees would be expected to take out insurance against loss of earnings as part of the Building Society contract. During the transitional period existing mortgagees could receive mortgage interest payments, but only as a loan, which would be repayable on sale of the property.

*for six months only

(1) Mortgage interest is currently payable in full with supplementary benefit.

GAINERS AND LOSERS

There are two ways to calculate the effects of tax and benefit changes on individual living standards. First by examining the effects on net incomes and net spending power of hypothetical families. Secondly through analysis of actual families in the Family Expenditure Survey (FES). At LSE the International Centre for Economics and Related Disciplines (ICERD) is at present working on a programme to make possible a study of the full FES sample. In the meantime, the following tables show the effects of the proposed BIG 1(a) changes on hypothetical families.

Net spending power is defined as earnings PLUS benefits and/or basic incomes LESS income tax, NI contribution, rent and rates. **Net income** is defined as earnings PLUS benefits or basic incomes LESS income tax and NI contribution.

"BIG" 2(c) is a less radical option than BIG 1(a). State earnings related pension (SERPS) is retained, and so are tax reliefs for superannuation and self-employed retirement annuities. Since a part of each person's income tax would go towards his/her earnings related pension, this should encourage people to pay their tax. The introduction of a **householder basic income** makes the scheme very economical, by concentrating resources where costs are highest. But this also adds to administrative costs, and might encourage the formation of more households.

The main disadvantage of this option is the low level of the adult basic income. This is made necessary by the

inclusion of SERPS, which costs an estimated £6.4 billion⁽¹⁾, and by the retention of private pension tax reliefs, which costs a further £4.0 billion.

All is not lost however, because a negative income tax would top up incomes at nil earnings, and be withdrawn along with the new housing benefit, using a combined 33% taper. Thus an unemployed person would qualify for basic income of £12, plus negative income tax of £9.50, total £21.50, plus housing benefit. Moreover because of the householder basic income there is less reliance on housing benefit than under BIG 1(a).

NOTE that BIG 2(c), like BIG 1(a) includes a guaranteed basic income for all students and vocational trainees. With BIG 2(c) each young person aged 16 or over in a recognised course of vocational or academic training would receive £21.50 if living at home and £35.50 if required for educational reasons to live away from home

Higher rates of BI are also introduced for men and women at age 63. This is in line with the recommendations of the House of Commons Select Committee on Social Services "Age of Retirement" enquiry. (HC 26-1, 27 Oct 82).

(1) The figure of £6.4 billion (equal to 5% of estimated incomes from employment) assumes that the State Earnings-Related Pension Scheme (SERPS) is fully mature, and is derived from the Government Actuary's estimates in Appendix H and Table 13 of the *National Insurance Fund Long Term Financial Estimates (First Quinquennial Review)*, published in July 1982.

TABLE 2: Basic Income Guarantee 1(a) NET SPENDING POWER AT NIL EARNINGS 1984-85

After taking into account housing costs* and housing benefits, free school meals**, free welfare milk** and heating addition.

	Existing system Nov '84	"BIG" 1(a) 1984-85
Single non-householder (18 & over) (16-17)	£ 22.45**** 17.30	£ 21.50 21.50
Single householder	28.05	28.90
Married or "cohabiting" couple	45.55	
Any other 2 adults sharing accommodation	50.50	Any two adults sharing accommodation Any 2 adults + 2 children: aged 4 and 6 11 and 15
Couple + 2 children: aged 4 and 6 11 and 15	70.99 79.45	80.40 80.40
Lone parent (longterm SB) + 2 children aged 4 & 6	61.14	58.90/64.00(?)*** 36.15
Single pensioner householder	36.80	
Married or "cohabiting" pensioner couple	56.10	Any 2 pensioners sharing accommodation 78.75
Any other 2 pensioners sharing accommodation	66.46	

* Assuming rent £12.95 and rates £6.30 for people without children
Assuming rent £15.45 and rates £7.30 for families with children

** Abolished for BIG 1(a)

*** Amount depends on whether or not there is a lone parent basic income supplement

****Plus £3.30 non-householder's rent addition for claimants aged 21 and over

TABLE 3: Basic Income Guarantee 1(a) NET SPENDING POWER, Families with 2 children

Rent £15.45; rates £5.30; water rates £1.50

GROSS WEEKLY EARNINGS		EXISTING SYSTEM MAY 1984	BIG 1(a) 1984-85
£	£	£	£
0	+ CB/BI + SB etc + HB - HC = NSP	13.00 54.92 22.75 <u>22.75</u> 67.92	73.00 — 30.15 <u>22.75</u> 80.40
40	+ CB/BI + FIS, FSM, FWM + HB - IT - NIC - HC = NSP	13.00 28.07 21.15 — 3.60 <u>22.75</u> 75.87	73.00 — 16.95 16.00 — <u>22.75</u> 91.20
60	+ CB/BI + FIS etc + HB - IT - NIC - HC = NSP	13.00 21.57 17.45 — 5.40 <u>22.75</u> 83.87	73.00 — 10.34 24.00 — <u>22.75</u> 96.59
80	+ CB/BI + FIS etc + HB - IT - NIC - HC = NSP	13.00 11.57 14.15 5.80 7.20 <u>22.75</u> 82.97	73.00 — 4.74 32.00 — <u>22.75</u> 102.99
100	+ CB/BI + HB - IT - NIC - HC = NSP	13.00 9.87 11.80 9.00 <u>22.75</u> 79.32	73.00 — 40.00 — <u>22.75</u> 110.25
125	+ CB/BI + HB - IT - NIC - HC = NSP	13.00 1.12 19.30 11.25 <u>22.75</u> 85.82	73.00 — 50.00 — <u>22.75</u> 125.25
150	+ CB/BI - IT - NIC - HC = NSP	13.00 26.80 13.50 <u>22.75</u> 99.95	73.00 60.00 — <u>22.75</u> 140.25

CB/BI = child benefit/basic income

SB = supplementary benefit

HB = housing benefit

HC = housing costs

NSP = net spending power

FIS, FSM, FWM = family income supplement, free school meals, free welfare milk

IT = income tax

NIC = national insurance contribution

