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# BULLETIN 13

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MARC BOEUF ON  
SOLIDARITY

BIRG

JAMES MEADE ON BI IN THE  
NEW EUROPE

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CHILD BENEFIT, CHILD TAX  
ALLOWANCES OR BI?

SUSAN RAVEN TALKS TO  
SIR RALF DAHRENDORF

INCOME DISTRIBUTION IN  
CZECHOSLOVAKIA

BIRG

VOBRUBA ON BI AND  
DEMOCRACY

## BASIC INCOME DEFINED

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

## BASIC INCOME RESEARCH GROUP (BIRG)

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

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## Editorial

In pre-election Britain the word of the moment is *citizenship*. In July 1991, in a last-ditch attempt to redeem his party's fortunes, Prime Minister John Major presented to parliament a *Citizen's Charter* in the form of a White Paper<sup>1</sup> — which is odd considering that Britons are their Queen's loyal subjects, not citizens at all — nor is there any mention in the White Paper of constitutional reform — nor was the White Paper preceded by a Consultation Paper, which should itself be normal practice in a well functioning parliamentary democracy.

Welcome though the Charter may be, the rights of redress it promises against high-handedness and inefficiency in the public services make it at best a consumer's (or people's) charter. An authentic Citizen's Charter would include constitutional reform and an inalienable right to income security. Instead, people on low incomes will continue to be taxed beyond their ability to pay, their benefit entitlements will continue to depend on the cat's cradle of regulations that passes for a welfare state, and those receiving means-tested benefits will continue to be regarded (and treated) as second-class citizens.

All this is so far removed from the views on citizenship expressed by Sir Ralf Dahrendorf, Paddy Ashdown MP (leader of Britain's Liberal Democrats) and other participants at BIRG's annual conference last month (see *At Home and Abroad*), and in Susan Raven's interview with Ralf Dahrendorf in this Bulletin, that it makes one wonder if the Conservative leadership is confusing citizenship with the mindless consumerism of the 1980s.

Citizenship rights, says Ralf Dahrendorf, are rights of considerable dignity and importance. Like equality before the law and universal suffrage, once granted they become irreversible. BI would have to be phased in gradually — it could require more than one Parliament — so the debate about it must be kept above party politics. Ideally there would be the same degree of consensus about BI as there was after the Beveridge Report in 1942. Nor is this so daunting a challenge as at first appears, because attitudes change. Less than one hundred years ago women were being sent to prison for demonstrating in favour of universal suffrage, yet today the latter is taken for granted.

Basic Income is not the soft option it is sometimes made out to be. It would help people participate in the life of their communities (see also Keith Argyle in this issue's *VIEWPOINT*), and it would help the tax and benefit systems adjust to labour-market change. The right not to work, which for Dahrendorf is an integral part of BI, is an essential guarantee against forced labour.

Paddy Ashdown, in his address to BIRG's conference, described the agenda for post-Thatcher politics as one that has at its core a new understanding of citizenship. In the industrial world of the 1990s and beyond, Britain's national insurance system can no longer cope. The response of the Conservative government has been to undermine rather than update it — by increasing reliance on means testing. Instead the time has come for a radical re-think:

I believe that Britain should now move towards an entirely new structure of income support, in which every citizen would receive an unconditional Basic or Citizen's Income ... A Citizen's Income will be the best form of targeting, because it goes directly to where it is needed, and is based on the sensible principle of ability to pay.<sup>2</sup>

In BIRG's recent labour market discussion paper<sup>3</sup>, we drew attention to fears that BI would act as a subsidy for low pay, and argued that BI could operate with or without a national minimum wage. But Paddy Ashdown, Samuel Brittan and Ralf Dahrendorf will have none of this. BI, says Dahrendorf, should be a right of citizenship — but the same arguments do not apply to a national minimum wage. A minimum wage, says Ashdown, would introduce "a new rigidity into the labour market, just at the very time when we should be freeing it up."<sup>2</sup> And Samuel Brittan's views were neatly summarised in an article in the Financial Times on *Minimum income vs minimum pay* (see *Books and Papers received*). The introduction of new, low-paid jobs, says Brittan, is the most promising way to reduce unemployment towards the levels of the 1950s and 60s. Excess profits made by (allegedly) unscrupulous employers would soon disappear as they competed with each other.

In this issue of the Bulletin we include articles from Czechoslovakia and France. Jiří Večerník's analysis of the income distribution system in former eastern-bloc countries shows that introduction of a BI is impossible without prior introduction of an effective income tax system. One answer not mentioned by Večerník, might be a social dividend financed by 'topsy-turvy nationalisation' — as expounded by James Meade in BIRG Bulletin No. 10 and elsewhere. Instead of Thatcher-style privatisation of state-owned, state-managed industries, the new governments of Eastern Europe could transfer management responsibilities for public utilities to the private sector, but retain a share of future profits for their countries' citizens. This share of the profits could be distributed through a social dividend.

In France, whose people celebrated two centuries of citizenship in 1989, there appears to be more solidarity on social issues than in post-Thatcher Britain. This is the foundation on which Senator Marc Boeuf would like to build, and there are signs that change is already on the way. France's new Contribution Sociale Généralisée (CSG) will widen the income tax base by replacing part of the employee's social security contribution by a 1.1% levy on all income (including income from pensions, rents and investments). If a similar process were started in the UK, it could facilitate introduction of BI. A start could be made by financing out of general taxation the £4,000 million at present contributed to the National Health Service by wage and salary earners.

In the last six months BIRG has made rapid progress. A new structure is in place and working well. There are some new trustees and a formidable list of advisors. For full details see the inside-front cover of this Bulletin. A database has been constructed on BIRG's new computer, and covenant and gift-aid schemes have been set up. Work on a short video is progressing well. Between now and 1994 BIRG aims to raise the level and quality of public debate about BI. If there is anything we can do to help readers set up and run local networks, please let us know.

**Please also note that the views expressed in this Bulletin are those of its authors, not of BIRG.**

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#### References

1. *The Citizen's Charter*, Cm 1599, HMSO July 1991, £8.50.
2. *Ashdown enters debate over Labour's minimum wage*, Liberal Democrat Press Release 12th July 1991. Contact Alan Leaman, telephone 071 219 6695.
3. *Basic income and the labour market*, BIRG Discussion Paper No. 1, April 1991.

# Solidarity

Marc Boeuf

*Basic Income is concerned with the rights of individuals as equal citizens, not with attributed rights. This is in stark contrast to existing social security systems, where entitlements (particularly of women) often depend on the rights of spouses/former spouses; or (in the case of children) on the rights, incomes and sometimes work status of their parents. Unlike the UK, France has a long tradition of active, explicit family policies, and when François Mitterand first became President, there was much talk about the “rights of the child”. Yet France’s main child benefit (*l’allocation familiale*) still varies according to the seniority of the child in each family. For first children there is no entitlement; for second children there is a monthly payment of Frs 610 (roughly £14 a week); whilst for third children and each subsequent child the benefit amount goes up to Frs 781 a month (roughly £18 a week). There are also numerous means-tested family benefits. In this article, Marc Boeuf argues for radical change to bring French social policy into line with contemporary life styles.<sup>1</sup> Although his main recommendations concern family policy (e.g. guaranteed incomes for children and young people in education and training), the implications of what he is saying bring him close to Basic Income as defined by BIRG.*

## The right to a means of existence

In the constitution of the French Republic it is laid down that *every human being who is unable to work has the right to obtain from the community an income that is sufficient to live in dignity*. In other words every French citizen has a fundamental right to a dignified existence. Unfortunately, according to recent research and statistics, a significant proportion of the French population is living below the poverty threshold. The *Revenu Minimum d’Insertion/RMI*, which became law in 1988,<sup>2</sup> is an important innovation — no less important in terms of French social history than the introduction of social security in 1945. The RMI gives claimants a right based on national solidarity instead of locally administered charity. The latter, although praiseworthy, is often restrictive and tends to result in long-term welfare dependency.

## Equal rights

Since introduction of the RMI, the idea of an income for every person who is poor is discussed in France for the first time, and in this article I would like to reflect upon these developments more deeply. Are we not approaching an era when the only essential worker will be the machine? A reduction in working time is inescapable. By contrast, time spent in education and training is likely to become longer, and working time is likely to be distributed differently. Even assuming, as a result of increased investment in education and training, that humankind is able to adapt to the requirements of

galloping technological advance — will there not be, along the way, an ever-increasing number of young people who are unable to complete the necessary education?

So has the time come to consider the possibility of introducing a guaranteed social income for every citizen? Such an income already exists in some countries, like Canada.

The novelty of this idea is that the income would be paid to every human being from birth. Children would be entitled to it in their own right, instead of as dependants of their parents. It would be taken into account for tax purposes, and would provide the same basic amount for all, although there could be age-related supplements and increases for handicap. In that case it would be possible to get rid of the present multitude of family benefits, which are often ill suited to the conditions in which people actually live.

## Family policy

A guaranteed social income would fit well with a renovated family policy, which in France is long overdue. The era of the extended family ruled over by *pater familias* is gone. The size of the average family has diminished. Today’s family consists of a couple with or without children. Sometimes there is only one parent. Relationships within the family have also changed. That may be regrettable, but it is a fact! Tomorrow’s family will be a community of human beings with equal rights and equal duties. At birth each child will have to be considered as a separate human being in his/her own right, and the first right is the right to a means of existence. Moreover, it is to the newborn child that the solidarity of the nation must be addressed. Each child should be entitled to social benefits in its own right, not through its parents. But what should be those benefits?

If we want *equality* to be more than an empty word on our public monuments, we must grant every child who is legally resident in France — regardless of its origin or the wealth of its family — a guaranteed social income that will replace the tangle of social benefits which at present tend to reinforce inequalities, and are the product of assistance rather than true solidarity.

Such an idea may seem revolutionary to some and utopian to others. It may also serve to highlight the merits of starting a debate to renovate our family policy. After all, as the poet says: *Is it not the sweet law of mankind to change water into light and dreams into reality?*

## Paying for it: the CSG

Of course it will be necessary to calculate the cost of the guaranteed income, which looks enormous, but which would replace existing benefits and would increase tax revenues.

One way to increase tax revenues is to widen the tax base, which is exactly what France’s new *Contribution Sociale Généralisée (CSG)* will do. French social security was always intended to be universal, but from 1945-75 all its benefits were linked to contributions paid. Since

the 1970s family benefits have gradually been extended to all families, whether or not the parents are in paid work. But there have not been any corresponding tax changes, as a result of which the cost of the new benefits falls on wages and salaries through social insurance contributions.

Social security contributions are notoriously regressive. No contribution is payable on unearned income, nor on earnings above the prescribed ceilings. In terms of social justice they are therefore unfair. A worker earning France's minimum wage (the SMIC) pays 13.6% of his salary in social insurance contributions, compared with 8% for an executive earning 40,000 Frs a month. The latter also benefits more from the fact that French social insurance contributions are deductible for income tax.

The CSG represents the first stage towards widening the tax base. For the first time, almost all incomes will be liable to a contribution towards social solidarity, and for the first time those who earn most will pay most. Each year Parliament will be required to approve the rate of the CSG, whereas the rates of social insurance contribution are fixed by regulation. The CSG rate for 1991 will be 1.1%. This is not an additional tax. On the contrary there will be offsetting reductions in social security contributions. According to official estimates, the majority of wage and salary earners will be better off.

## Public attitudes

Before the process of universalisation can be carried further there must be a change of attitudes. The right to a dignified existence will not come about without true solidarity, that is to say a system which does not make those who receive it (the beneficiaries) beholden to those who provide it (the taxpayers).

*Marc Boeuf represents the Gironde (the area around Bordeaux) in the French Senate, and is First Vice President of the Conseil Général of the Gironde. He is also Vice President of the Social Affairs Commission of the Senate.*

### References

1. See also interventions by Marc Boeuf in the French Senate on 17 May and 22 November 1990, and article by Marc Boeuf *Solidarité: Un revenu social garanti*, in *Le Monde* 12 October 1990.
2. See BIRG Bulletin No 9, *AT HOME AND ABROAD*

# Basic Income in the New Europe?

**James Meade**

*This article is extracted, with the author's kind permission, from Hume Occasional Paper No. 28, **The Building of the New Europe: National Diversity versus Continental Uniformity**, pages 24-29. In it James Meade searches for "the best form of liberal economy" in post-1992 Europe, and asks whether allowing each member State to go its own way would be compatible with the requirements of economic union. In the current discussion lip service is paid to the principle of **subsidiarity**, yet in reality the Community authorities steadily accrue more powers to themselves, nor is this necessarily against the common interest.*

*What is the subsidiarity principle? This is how Meade defines it:*

*"... in the ascending hierarchy of authorities from paterfamilias to neighbourhood council to regional council to national government to European Community, anything which can be done well at a lower level should be left to that level and only those things which cannot be done well at the lower level should be assigned to decision and administration by a higher level of authority."*

*In the extract that follows Meade examines the implications of the subsidiarity principle for the redistribution of income and wealth in post-1992 Europe, with special reference to the European Social Charter. His comments are central to a debate which could result in greater (concealed) national protectionism — under Brussels direction.*

The basic objective of a Single Market is to promote competition through freedom of movement of goods, capital and labour. In the case of positive interventions in the Single Market which are left to the decision of the national authorities, I shall draw a distinction between what may be called uncompensated and compensated freedom of movement. The idea behind this distinction can be made clear by a simple example. There is a tax of 10% in country A on a particular product. In country B there is no tax. Uncompensated freedom of movement of the goods from B to A would mean the absence of any tax on the import of the goods by A from B, and this would give the producers of B a 10% "unnatural" tax advantage over the producers of the goods in A. A 10% duty on the import of the goods from B would represent what I would call compensated free entry for the goods into A. This has real meaning because a 20% duty which would give A's producers a 10% advantage over B's producers would in my terminology mean that there was not freedom of movement of the goods, even though there might be no quantitative quota restriction on the amount

of the goods that was permitted to move from B to A. The application of the idea of compensated freedom of movement is not at all easy, as I hope to show; but as a means of clarifying some of the basic underlying issues in the discussion of the treatment of clashes between national diversity and continental uniformity it can, I believe, be useful.

## Advantages of laissez-faire

On the principle of subsidiarity, I start the examination of this wide range of labour market and other social interventions in the market on the assumption that such interventions should be left to the national governments and that the function of the European community in these matters is to ensure the free competitive movement of goods and of factors of production between the member countries. On examination there is much to be said for continuing to rely in the main on this principle in the case of these social measures.

There are great differences in the standards of living in the various member countries. Any attempt to lay down a meaningful minimum wage for all workers in the community as an equalising device at the lower end of the income scale would have disastrous effects. If such a regulation were strictly confined to the wage for labour it would be extremely unfair to a country which adopted the Agathopian<sup>1</sup> policy of tackling unemployment by combining a low wage with a high Basic Income from other sources or which adopted the profit-sharing principle of combining a low fixed rate of wage with a high share of profit for the workers. If an attempt were made to set a meaningful minimum, it would at least be necessary to include receipts from a Basic Income, from a share of profits or from other similar sources, in the definition of the "wage". This — together with other problems such as the treatment of part-time work through the decision whether it was the hourly rate of pay or weekly earnings to which the minimum referred — would raise great administrative problems, the regulation and policing of which would require a considerable central bureaucratic staff.

But the basic argument against such central intervention does not depend upon these administrative problems. A minimum rate of pay which had any meaning for the member countries with existing high standards would be a device which protected them from being undercut by the products of member countries whose uncontrolled rates of pay would be below the minimum. As far as real differences in the productivity of labour in different European countries are concerned, it is freedom of movement of goods, of capital, of enterprise, and of workers between the countries which could provide a really effective equalising factor. The concentration of production on labour-intensive products in those countries where labour is plentiful and on capital-intensive products in those countries in which capital equipment is plentiful, together with free exchange of the products between the two types of country, would promote total production as well as helping to equalise earnings. And a similar tendency would result from the free flow of capital from economies in which it was plentiful into economies in which it was scarce and from the free migration of workers from economies in which labour is cheap to economies in which it is expensive.

There is a similar strong argument for leaving questions affecting the choice of institutions and other arrangements for wage-fixing, and of the structure of competitive production units, to the decision of the national governments rather than attempting to devise central regulations covering the participation of workers in the management of such units. Different countries may produce different mixes of what I have called Market Socialism, Capitalist Companies, Profit-Sharing Companies, Labour-Managed Cooperatives and Labour-Capital Partnerships with different arrangements about wage-fixing and about labour participation in the management of the concerns. By ensuring free competition between them, the central European authority can make its best contribution to the choice of the most appropriate structures.

## Limitations of laissez-faire

There remains, however, one very important set of problems in this field with which the simple attribution to the national governments of these social policies does not cope satisfactorily. Where differences in standards of living are due to differences in real underlying economic conditions, the proposed laissez-faire attitude of the central authority is likely to be the appropriate answer. But such differences may themselves well be the result of differences in national regulations, institutions, and policies rather than of differences in the underlying supply, demand and productivity of the available economic resources.

Suppose that countries A and B are very similar in their real underlying economic resources; that A has adopted a wide range of institutions and policies to redistribute income and wealth in an egalitarian direction; but that B has interfered very little with the distribution of income and wealth which results from the free play of the competitive markets. Low-paid, unskilled workers might migrate from B to A to enjoy the favourable tax, social security, basic income advantages in A, while highly-skilled, high-paid workers and successful entrepreneurs might migrate from A to B, carrying their capital fund with them, to enjoy the relatively favourable tax treatment which they would receive in B. At the extreme such a situation could lead to a most inefficient and undesirable concentration of all the poor low-productive factors in one country with all the rich high-productive factors in the other.

## Some possible outcomes

One result might be that country A would decide to abandon or modify its egalitarian interventions. Free competition between A and B in the Community market would have induced a convergence in national policies, in this case probably in the direction of scrapping egalitarian experiments.

A second possibility is that the central community authorities should introduce regulations for the harmonisation of the relevant national institutions and policies. This would imply that some egalitarian intervention should take place but on the same scale and by the same means in all the national economies. This solution raises the great problems of deciding what the uniform

scale and methods should be and implies the building of an effective central bureaucratic apparatus to administer and enforce the harmonised procedures. It also has the disadvantage of eliminating the possibility of diverse experimentation in the different national arrangements.

A third possibility is that the central Community authority should allow free national experimentation in these policies but should itself introduce and administer a positive form of egalitarian intervention of its own. For example it might itself raise a general community levy or tax of some form and use the proceeds to pay a modest Basic Income to all the citizens of the member countries. The national governments could be left to top this up with their different national schemes. Movements of people and capital would as before put a brake on the most extreme egalitarian experiments; but the existence of the modest Community scheme would mean that the outcome of the competition between the national experiments would be less markedly inegalitarian than would otherwise have been the case. This solution would permit more national experimentation and would involve a less complicated central bureaucratic apparatus than the solution through centrally administered full national harmonisation.

A fourth possibility is to allow complete national freedom of experimentation in this field but to attempt to offset the effects of competition between the different national schemes by modifying the forces of competition through the introduction of what I have called compensated freedom of movement of goods, capital, and workers. Workers would be free to migrate from country B to country A, but they would not enjoy the extra egalitarian benefits which were offered in A over and above those that were offered in B. Capital could flow from A to B but would remain subject to any extra egalitarian tax or other treatment to which it was subject in A.

Claiming the privilege of the 'Ambidextrous Economist'<sup>2</sup> (*there is almost always a case for and a case against any economic decision*), I leave the choice between these solutions to the readers's decision.

*James Meade is Emeritus Professor of Political Economy at the University of Cambridge. In 1977 he won the Nobel Prize in Economics for his writings on international trade theory and policy. He has also written widely on Social Dividend and Basic Income.*

#### References

1. J.E. Meade, *Agathotopis: The Economics of Partnership*, Hume Paper No 16, Aberdeen University Press, 1988.
2. President Truman is reported to have instituted a search for a One-Armed Economist, so that when he sought advice on an economic decision he would not be told that on the one hand there was a case for it, but on the other hand a case against. In Meade's view (*The Building of the New Europe*, page 20) "There is almost always a case for and a case against an economic decision".

# Child benefit, child tax allowances and basic incomes: A comparative study

Hermione Parker and Holly Sutherland

In February 1991 The Suntory Toyota International Centre for Economics and Related Disciplines (STICERD), at the London School of Economics, published a comparative study by Hermione Parker and Holly Sutherland of the effects on family income support of (a) child tax allowances, (b) increased child benefit and (c) basic incomes.<sup>1</sup> The study was financed by the Joseph Rowntree Foundation and the Economic and Social Research Council (ESRC). The authors were surprised by the consistently good showing of the BI option.

## 1. BACKGROUND

The background to this study was political — child benefit having been frozen at £7.25 from April 1987 until April 1991. Had it been uprated in line with prices since 1987 it would now be £9.55 for every child. Had it been uprated in line with prices since Mrs Thatcher became Prime Minister (in 1979), it would now be £9.90. And had it been uprated in line with the single person's income tax allowance (thereby maintaining the relative living standards of taxpayers with and without children) it would now be about £11.30.

Our study pre-dated the extra £1 awarded in April 1991 to the eldest child in each family, which in any case raises other issues. Our purpose was to compare the underlying implications of four different reform strategies:

- Replacement of child benefit by child tax reliefs
- Reintroduction of child tax reliefs alongside child benefit
- Greatly increased child benefit
- Replacement of personal income tax allowances and child benefit by small transitional Basic Incomes (BIs)

Since then, the government of John Major appears to have ruled out the return of child tax allowances. Yet the future of child benefit remains uncertain, and the merits of BI are largely unknown.

## Record of Thatcherism

The anti-child benefit stance of Mrs Thatcher's government has been defended on the grounds that child benefit is poorly targeted (Lord Joseph<sup>2</sup>), and "expensive and indiscriminate" (David Willetts<sup>3</sup>). Yet the effects of the freeze are so worrying that even the Director General of NEDO has recommended increasing child benefit to £14.50.<sup>4</sup>

The results of the freeze can be summarised as follows:

- The relative living standards of families with children, especially single-earner families, have fallen behind those of the rest of the population.
- Families with children (and the older children themselves) are disproportionately and increasingly at risk of the unemployment and poverty traps.
- Family life has come under increasing strain.
- Family income support, which used to be regarded as investment in the younger generation, has become hopelessly confused with poverty relief.

Most of this is undisputed, even in Parliament. Yet the idea that child benefit is indiscriminate remains. Influential voices have recommended a return to child tax allowances (CTAs). Most come from the political right, but they include Frank Field MP, Labour Chairman of the House of Commons Social Security Select Committee.

In July 1989 Field tabled an amendment to the Finance Bill of that year, in which he proposed CTAs of £100 per child. He wanted to protect family living standards pending the return of a Labour government and a full child-benefit uprating. His amendment was defeated, but the idea re-emerged in a pamphlet by the National Family Trust, calling for CTAs alongside fully indexed child benefit.<sup>5</sup> In November 1989 David Willets announced that the Centre for Policy Studies would produce proposals aimed at reviving CTAs, to run alongside child benefit. He recommended greatly increased child benefit for under-fives and a family tax allowance, to be paid for by abolishing child benefit for the over-fives.<sup>3</sup> In May 1990 Lord Joseph recommended retention of child benefit alongside CTAs.<sup>2</sup>

## Three stumbling blocks

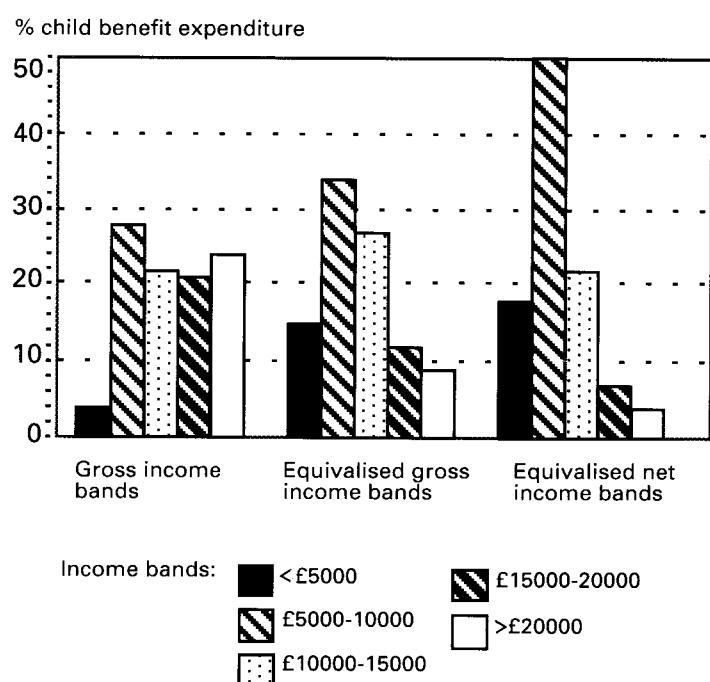
The debate is beset by three major difficulties:

- Insufficient detail to be able to assess the reform proposals
- Confusion about who is 'rich' and who is 'poor'
- Confusion about the role of income tax

None of the proposals we examined contained the detail necessary to assess them. Some had no figures at all. Even the Field proposal, which has the necessary figures, said nothing about administration, for example which parent should get the child tax allowances.

Much of the debate is based on the tacit assumption that any family with more than (say) £20,000 a year is 'rich' – regardless of the number of people who depend on that income. Yet a family with two children clearly needs more than a single person to reach living standard equivalence – the difficulty is to determine how much more. Using equivalence scales derived from family expenditure surveys in the early 1970s, the Department of Social Security (DSS) estimated that in 1989, out of total expenditure on child benefit of over £4,500 million, only £200 million went to families with net incomes equivalent to upwards of £20,000 for a single person (once family size was taken into account). Yet the equivalence scales used by the DSS are considerably less generous to children than those used by the OECD and the European Commission.

**Figure 1: Distribution of child benefit expenditure by income bands of recipient families, GB 1989-90**



In Figure 1, look first at the left-hand columns marked *gross income*. Child benefit is paid at the same flat rate per child, therefore expenditure on it is a multiple of the number of children whose families had gross incomes in each income band. The UK has about 7 million families with children. In 1989-90 the smallest expenditure went to families with gross incomes under £5,000, because that band had fewer than  $\frac{1}{2}$  million children in it. The largest expenditure went to families with gross incomes of £5,000-£10,000, because that band contained 3.3 million children. Now look at the middle set of columns marked *equivalised gross incomes*. Here the families' gross incomes are divided by the DSS equivalence ratios, as a result of which it becomes clear that the bulk of child benefit expenditure goes to families with quite modest life styles. Nor is that all. The right-hand set of columns also takes account of income tax, which is important because in the UK families with children pay the same income tax as those without. The changes between the first and third sets of columns are dramatic. All that is needed to reduce the last of the right-hand columns to zero (if that were thought desirable) is to increase the income tax rate and/or reduce the threshold for higher-rate income tax.

A third major difficulty arises from confusion regarding the role of income tax. Arguably, the effectiveness with which any benefit is targeted depends as much on the progressivity of the income tax system as on benefit entitlements, so it is misleading to examine the systems separately. An increase of £6 a week in child benefit, financed by putting an extra 2 pence on income tax, would be withdrawn from one-child families once their joint taxable incomes reached £300 a week. Above that level they would be net losers, because the extra tax they paid (2 pence in every £) would exceed the extra child benefit they received.

This point is often overlooked. In November 1989, the Institute for Fiscal Studies (IFS) published a simulation analysis of the redistributive effects of increased child

benefit, on the assumption that an extra £1 billion was available without any offsetting tax increases.<sup>6</sup> Given that families in the 2 lowest deciles tend to have their child benefit set against means-tested Income Support or Family Credit, the figures predictably showed rich families gaining more than poor ones. But the IFS assumption was an artificial one. In real life, the increased child benefit would have to be paid for. If the IFS had financed their assumed increase through income tax, their results would have been different, and low-income families with children would have been seen to do better than rich ones.

## Some factors cannot be quantified

When assessing the impact of tax and benefit changes, it is best to tread warily. Much more is involved than money. Some effects that cannot be quantified are at least as important as those that can be. Low-income families getting means-tested benefits might not gain in money terms from increased child benefit or BI, but they would gain in terms of autonomy — mothers in particular. Increased autonomy does not show up in an analysis of cash gains or losses, but it has important implications. A switch from child benefit to child tax reliefs would transfer income (and autonomy) from mothers to fathers, including step fathers and male partners. At the margins it would almost certainly affect behaviour. Some married women would leave home, and some lone mothers would avoid remarriage or new partners.

## 2. REFORM OPTIONS

The purpose of our report was to compare the effects of the reform options, not to recommend specific proposals. In particular we wanted to show which options redistributed income upwards and which redistributed downwards, and whether they increased or decreased dependence on means-tested benefits.

**Figure 2: Reform options and reform criteria**

Reform strategies	<ol style="list-style-type: none"> <li>1. Residual welfare state</li> <li>2. Dual system</li> <li>3. Increased child benefit</li> <li>4. Basic income</li> </ol>
Criteria	<ol style="list-style-type: none"> <li>1. Simplicity</li> <li>2. Income distribution</li> <li>3. Work incentives</li> <li>4. Family life</li> </ol>

Figure 2 sets out the options and the criteria against which they were compared. All options were designed to be revenue neutral. **Option 1** is called *Residual Welfare State*, because it replaces child benefit by child tax reliefs and increased Family Credit. No extra money is put into child support. Existing expenditure is simply churned around. All the other options involve an additional cost of £3,000 million, financed by raising the standard rate of income tax from 25% to 27%. **Option 2** is called *Dual System*, because it runs age-related child tax reliefs alongside child benefit. **Option 3** (*Increased Child Benefit*) pays £13.25 a week child benefit on behalf of every child. And for **Option 4**, (*Basic Income*) we assumed abolition of all the personal income tax

allowances and their replacement by small, transitional BIs of £11.89 a week, credited automatically to every legal resident of the UK.

By *simplicity* we mean ease of access, low administrative costs and a system that does not create its own demand. A well known disadvantage of means-tested benefits is that they encourage people at the margins of entitlement to re-arrange their affairs in order to qualify. Child benefit and BI avoid this effect. Instead they act as platforms for initiative and risk taking. By *income distribution* we mean distribution between and within families. We measure the former in terms of equivalised net incomes. And we start from the assumption that income redistribution should help low-to-middle-income families, not rich ones. During the past ten years *work incentives* at the top have improved greatly, but not at the bottom. Families with children are the worst affected, because their earnings potential is more likely to be low in relation to the benefits they can get when out of work. The effects of tax and benefit changes on *family life* are hard to measure. We do not suggest that family break-up, homelessness can be remedied by reform of the tax and benefit systems alone.

But they can be made worse. The existing tax and benefit systems abound with unfairnesses between married and single. Symmetry would remove some of the incentives for families to break-up.

Table 1 summarises the detail of the different options. Notice the distinction between child tax allowances (CTAs) and child tax credits (CTCs). The former (like most British tax allowances and reliefs) are deducted from taxable income **before** applying the tax rate, as a result of which they push up the effective thresholds for higher-rate tax. They therefore cost the Inland Revenue more in terms of revenue foregone than the CTCs, which are deducted from tax liability **after** applying the tax rate, and are worth the same flat-rate amounts to every taxpayer. CTCs (like BIs) are fixed in amount, but (unlike BIs) they do not convert into cash for people without the income to set against them.

With **Option 1**, child benefit goes. Families getting Income Support are no worse off because child benefit is no longer set against their IS allowances. Families on Family Credit have an extra £7.25 added to the maximum amounts payable for each child. Option 1.1 uses CTAs. Option 1.2 uses CTCs, and the extra revenue is used to make the CTCs slightly larger. With **Option 2**, child benefit is retained. Age-related child tax reliefs are introduced at approximately their 1977 parities with single person's tax allowance. The standard rate of income tax goes up to 27%. Option 2.2 uses the extra revenue accruing from the CTCs to increase child benefit by 30 pence per child per week. **Option 3** increases child benefit by £6 a week (the extra is not deducted from the invalidity benefit or widowed mothers' child dependency additions). **Option 4** is more radical. All personal income tax allowances and child benefit are replaced by tax-free BIs of £11.89 for every man, woman and child. These BIs are deducted from existing benefit entitlements (but not invalidity benefit or widowed mothers' child dependency allowances). Income tax goes up to 27%, and there is a fixed-amount tax credit worth £5.40 on the first £20 a week of earned income. Mortgage interest tax relief is restricted to 27%, but not superannuation. National insurance contributions and one-parent benefit are unchanged.

**Table 1: Details of reform options, £ week**

<b>1. RESIDUAL WELFARE STATE</b>		
<i>Option 1.1 CTAs</i>		
Child benefit		zero
Child tax reliefs	0-10 years	£29.00
	11-15 years	£33.00
	16-18 years	£35.00
Family credit maxima		- £7.25
Tax rate		25%
<i>Option 1.2 CTCs</i>		
Child benefit		zero
Child tax reliefs	0-10 years	£30.00
	11-15 years	£34.00
	16-18 years	£37.00
Family credit maxima		+ £7.25
Tax rate		25%
<b>2. DUAL SYSTEM</b>		
<i>Option 2.1 CTAs</i>		
Child benefit		£7.25
Child tax reliefs	0-10 years	£22.00
	11-15 years	£25.00
	16-18 years	£27.00
Family credit maxima, no change		
Tax rate		27%
<i>Option 2.2 CTCs</i>		
Child benefit		£7.55
Child tax reliefs	0-10 years	£22.00
	11-15 years	£25.00
	16-18 years	£27.00
Family credit maxima		- £0.30
Tax rate		27%
<b>3. INCREASED CHILD BENEFIT</b>		
Child benefit		£13.25
Tax rate		27%
<b>4. BASIC INCOME</b>		
Partial BIs (per person)		£11.89
Personal tax allowances		zero
Earned-income tax credit		£5.40
Tax rate		27%
Mortgage interest tax relief		27% max

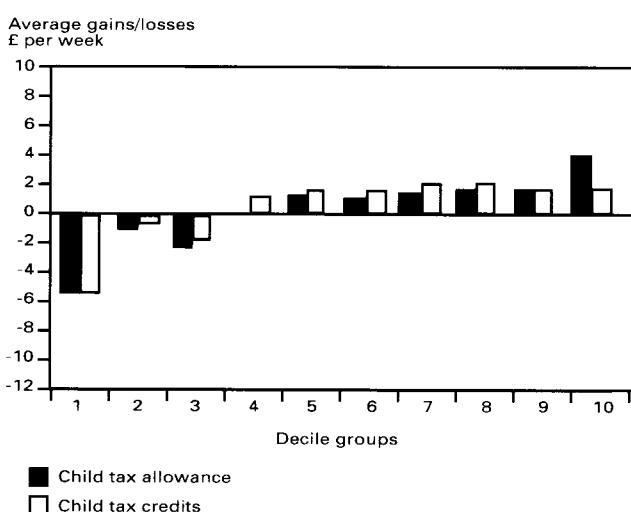
Strategies that rearrange existing expenditure — so that some families with children gain and others lose — risk doing more harm than good.

One of our aims was to discover which approach would be most successful in reaching low-income families. If child benefit is as indiscriminate as is alleged, Option 1 (which abolishes it) should come first, and Option 2 (which keeps child benefit at £7.25 and adds child tax reliefs) should come second. But that is not what happens. Basic Income (most universal of all benefits) comes first, increased child benefit second, a dual system third, and the residual welfare state last.

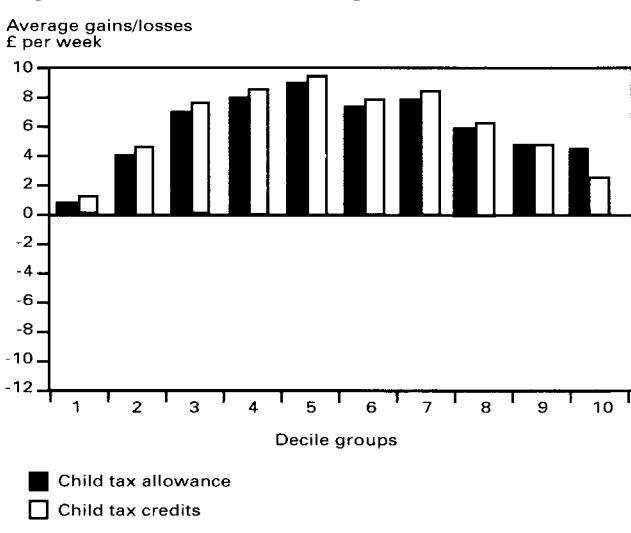
Figures 3-6 show average weekly gains/losses for each decile group of families with children. All incomes have been equivalised to take account of family size. **Option 1** (child tax reliefs replace child benefit) redistributes from poor to rich. **Option 2** (child tax reliefs alongside child benefit) looks better, but families at the top still gain more than those at the bottom. **Option 3** (child benefit at £13.25) looks much better. But it is **Option 4** (BI) that comes out with flying colours. Families with children in the lowest decile gain an average of £8 a week; those at the top lose an average of £12.

**Figures 3-6: Redistributive effects of the reform options**

**Figure 3: Child tax reliefs replace child benefit**



**Figure 4: Child tax reliefs alongside child benefit**



### 3. FINDINGS

#### \* Simplicity

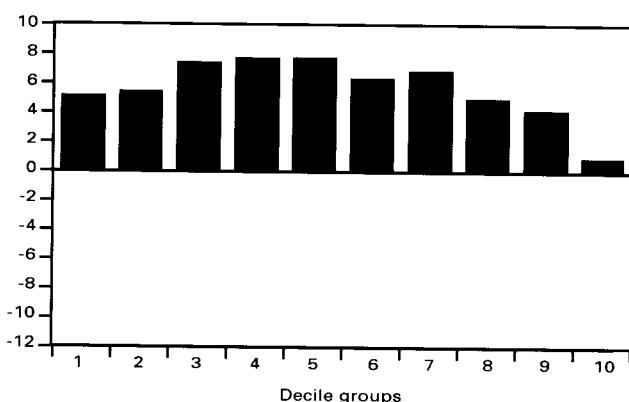
We awarded simplicity ratings according to the impact of each scheme on claimants, administrators and taxpayers. We decided that real simplification means ease of access, low compliance costs, a reduced case load for means-tested benefits and the minimum of restrictive legislation. For these reasons any system that results in more families with children on means-tested benefits scores zero on our simplicity ratings. We therefore ruled out Option 1. Increased child benefit came first, followed by Basic Income and a dual system, in that order.

#### \* Income distribution

Without doubt, a revival of family income support requires the political will to invest more money in it.

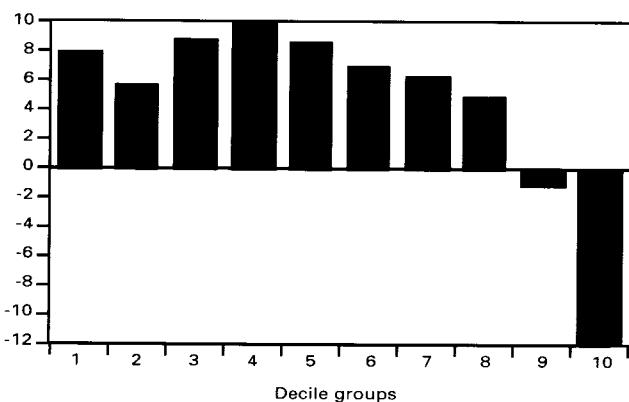
**Figure 5:** Child benefit increased to £13.25

Average gains/losses  
£ per week



**Figure 6:** Basic income, every man, woman and child £11.89

Average gains/losses  
£ per week



The main reasons why low-income families gain more from child benefit and BI than from child tax reliefs are low take-up of means-tested benefits, and the inability of non-earning parents (usually mothers) to make use of tax allowances. The latter is also the main reason why BI is more redistributive from rich to poor than increased child benefit. With increased CB every mother gets £6 a week more per child. With BI she gets an extra £4.64 per child, plus £11.89 a week for herself.

At a STICERD seminar in the London School of Economics last February, Steven Webb of the Institute for Fiscal Studies made the point that our calculations lacked even-handedness, since we restrict mortgage interest tax relief to 27% with Option 4 only — thereby providing an extra £420 million for the BIs. As a result of this comment, we recalculated our BI option on the assumption that mortgage interest tax relief remained unchanged. The BI scheme is still more redistributive from rich to poor families with children than any of the others, including increased child benefit (Table 2). Indeed BI is the only option that produces average losses in the top net-income deciles.

**Table 2: Options 3 and 4, average weekly gains/losses, by equivalent net income deciles, families with children**

Decile group	Option 3	Option 4(a)	Option 4(b)
1	5.17	8.31	7.59
2	5.34	6.43	6.28
3	8.51	9.19	8.30
4	8.73	9.86	8.95
5	8.72	9.20	8.26
6	7.40	7.34	6.67
7	7.59	6.07	5.42
8	5.57	3.97	3.60
9	3.41	-1.07	-0.19
10	0.77	-12.08	-8.22

Notes: Option 4(a) restricts mortgage interest tax relief to 27% tax Options 3 and 4(b) allow mortgage interest tax relief at the taxpayer's highest marginal rate

## \* Work incentives

According to official estimates, there are now  $\frac{1}{3}$  million working families with children with marginal tax rates at or above 70%.<sup>7</sup> With full take up of means-tested benefits the number would be twice that — about 10% of working families — and it would be higher still if fewer families were out of work. Due to work disincentives, a disproportionate number of families with children (especially one-parent families) are out of work.

**Taxing Peter to pay Peter.** The poverty trap describes the merry-go-round situation whereby families on low earnings are charged income tax, national insurance contribution and poll tax *at the same time* as they are being paid means-tested benefits. Family Credit (FC) is the killer, because it is withdrawn at 70% of net income. Families getting FC and housing benefit may gain only 3 pence out of each extra £ earned. From the point of view of incentives, changes that reduce dependence on FC are therefore preferable to those that increase it. To compare the effects of our reform options, we used three indicators:

- Net income gains from earning £160 a week instead of £60
- Poverty trap escape points
- Numbers of families affected by marginal tax rates above 70%

In 1989 a couple with two children was only £14 a week better off earning £160 than £60 a week. **Option 1** would not change this situation. **Option 2.2** and **Option 3** would push the gain up to £25. **Option 4(BI)** would double it.<sup>8</sup>

In 1989 the poverty trap escape point (i.e. the level of gross earnings at which entitlement to means-tested benefits ceased) for the same couple with two children was £150. With **Option 1.1**, it would go up to £160 (so more families would be caught in the trap). With **Option 2** it would go down to £133, with **Option 3** it would fall to £126 and with **Option 4** it would fall to £122 — a significant improvement. Such changes would immediately affect the numbers of families caught in the

poverty trap. With **Option 1** there would be an 8% increase in the number of families affected by marginal tax rates about 70% (i.e. the poverty trap would get worse). With **Option 2** there would be a 20% reduction. With **Options 3 and 4** the number of families affected would fall by over 30%.

The figures show that those who say BI would *remove* the poverty trap are over-optimistic. This is impossible so long as some families need extra help through means-tested (or income-tested) benefits. Yet to pay BIs at levels sufficient to be able to remove all need-related benefits would ‘universalise’ the poverty trap by requiring income tax rates of 70% or more for everyone.

**Paying Peter to do nothing.** The unemployment trap describes the fantastic situation whereby families with low earnings potential (especially those with high work expenses and/or high mortgages) are better off (or only marginally worse off) on the dole, and are penalised if they do part-time or irregular work. The existing social security system is based on the assumption that people are either in or out of full-time work, and that most wives are not in the labour market at all. But of course today’s labour market is not like that. Many jobs only last a week or two, and if the claimant declares them he has to go through the rigmarole of signing off and on again. So the rules discourage self-reliance (except in the black economy). If the wives of unemployed men do paid work, the husband’s benefit is docked accordingly. From which we concluded that any reform option that enhances the autonomy of out-of-work families (by allowing them to build on their benefits by taking part-time or casual work) is preferable to one that tangles them tighter in red tape.

Sometimes the unemployment trap is measured in terms of replacement ratios, with the latter defined as out-of-work benefits divided by in-work disposable incomes. We compared the different options in terms of the earnings levels below which out-of-work benefits equal 70% or more of disposable incomes from paid work (for a couple with 2 children). This 70% figure is a reference point only, and should not be taken to imply that paid work is always worthwhile if the replacement ratio is below 70% (or *vice versa*) since the degree of incentive (or disincentive) depends on individual circumstances. But it is necessary to leave some margin for work expenses and a small reward. Assuming that our family lived in low-cost, rented accommodation, they needed earnings in 1989 of £204 (against average earnings in April 1989 of £240) before their dole income fell below the 70% ratio. **Option 1** was no better. With **Options 2 and 3** the figure fell to £188, and with **Option 4** to £180. So once again it is BI which looks the most promising, although even BI cannot get rid of the unemployment trap entirely.

## \* Family life

In countries that are strong on family policy, the main reason for family income support is to strengthen family life – from the point of view of the children. Given that a minority of adults are at any one time responsible for all the nation’s children, it makes sense for others to share their burden, each according to their ability. This is the life-cycle approach to family policy. At some stages we are contributors and at others we are recipients. Nor is it as unfair to non-parents (meaning those who never

have children) as is sometimes alleged. For even non-parents were children once. The mistake is to think of family income support as a subsidy for parents. *It is for the children, and the nation as a whole.*

We compared the different strategies against the following indicators:

- Re-investment in child-rearing
- Income redistribution within families
- Mothers’ participation in paid work
- Symmetry

With Option 1, we found that the present disinvestment in families would continue. With Options 2, 3 or 4 it would be reversed.

Redistribution within families is more complicated. In general terms, fathers would gain from the reintroduction of child tax reliefs and mothers from increased child benefit or BI. But the effects on the mothers would also depend on whether or not they were in paid work, and on how much they earned. Non-earning mothers would neither gain nor lose from Option 2 (Dual System), but if they had earnings above the tax threshold they would lose – due to the extra 2 pence on income tax. Non-earning mothers would gain from Options 3 and 4. Mothers with high earnings would lose, but most would find the extra tax liability more than offset by the extra CB or BI.

Regarding participation in paid work, necessity, income distribution within families, and marginal tax rates seemed the most important factors – especially necessity. If government wants to reduce the number of hours mothers spend in paid work, it needs to pursue family policies that make staying at home a viable option. Any policy that reduces the relative living standards of families with children has the opposite effect, so we once again ruled out Option 1. Increased child benefit and BI are the only options that might result in more mothers staying at home – without compelling them to do so. But BI would have the strongest effect. A mother of two would get BIs totalling nearly £36 compared with £26.50 from increased child benefit. However, if she did paid work, only the first £20 a week of earnings would be tax-free, compared with £54 with increased child benefit (in 1989).

Finally symmetry. Lack of it in the existing tax and benefit systems is unfair and provides financial inducements for low-income parents to split up. Married and unmarried couples are mutually responsible for each other’s poll tax, yet the only way for the unmarried couples to qualify for married couple’s tax allowance is to have children. Married and unmarried (heterosexual) couples on Income Support get £62.25 between them (£31 each), whereas single people aged 25 or over get nearly £40, and lone parents get £44 – a marriage penalty of £13.

Basic Income is the only reform strategy we looked at that sets out to produce a tax/benefit system that is marriage neutral. Married couple’s allowance and the additional personal tax allowance would go into the pot – and out of it would come BIs that are the same for everyone.

## 4. POLICY IMPLICATIONS

Although we did not set out to recommend any particular scheme, we did draw the following conclusions:

- Child benefit is not an indiscriminate subsidy, and should be retained for children of all ages.
- If child tax reliefs were reintroduced, they should be in the form of fixed-amount child tax credits, not child tax allowances. But the administrative and equity problems look formidable.
- The potential advantages of BI are significant. It merits further study.<sup>9</sup>

In the immediate future, substantial increases in child benefit look the best way forward. These need not be financed by increasing the rate of income tax, another option is to finance them by restricting all income tax allowances and reliefs to the basic rate of income tax. If this were to happen, the move to BIs for adults as well as children could be a natural and easy step.

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

*Holly Sutherland is a research fellow working on the ESRC-funded Welfare Research Programme at the London School of Economics. The main calculations for the study were done using TAXMOD, a micro-computer program written by Sutherland for use with IBM personal computers.*

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## Can it happen?

**Susan Raven talks to  
Sir Ralf Dahrendorf**

*Here we continue our interview series with a conversation between Susan Raven and Sir Ralf Dahrendorf, which took place last April.*

**SR: What do you see as the most important agenda for political reform?**

**RD:** The key concept, I believe, is that of citizenship: which must have, at its core, the basic civil and political rights. However citizenship is more complicated than these basic rights. The ability to participate in the political process requires access to other things. Many advocates of the market economy make the mistake of supposing that the individual can join the market naked. You can't. You have to have information, and elementary assurances about health care and education — even a bit of money — to live in the modern world. It's quite a package!

I don't mind inequality as long as everyone has a firm floor to stand on, but one of the consequences of the 1980s is that for many British citizens the basic entitlements of citizenship have been put in jeopardy. Quite a lot of people are just finding that out.

What went wrong was that some of the entitlements of the welfare state were overdone. This led to huge bureaucracies which people didn't like. What then happened was that we got rid of the benefits — but (unfortunately) not of the bureaucracies. Frank Field<sup>1</sup> told me that some claimants in his constituency might well be prepared to settle for less money if they could get it without hassle.

It has all led to people dropping out — and then being kept out: certainly 5% of the population, perhaps as many as 10%. And for many other people, such as house-owners unable to keep up their mortgage repayments, their hold on basic opportunities has become precarious.

It's a sign that we need to remember what basic citizenship should involve. Citizenship is quite clearly a set of entitlements. It is *not* active citizenship — a bargain between what people have to do and what they get. It is *not* conditional.

**SR: Do you feel that Basic Income has a role to play?**

**RD:** I feel strongly that the pendulum must swing back from supply side to entitlements. Many people are reluctant to see that happen, but even Mr Major has indicated that it will.

Targeted social policies, which are the opposite of Basic Income, are understandable. But targeted policies are dubious because they involve an enormous bureaucracy to administer them. I too resent a world in which I get back what I pay in taxes, minus the cost of a whole lot

of administrators on the way. One hope associated with Basic Income is that it can be done comparatively simply by computers.

Another hope is that Basic Income could be brought in by either party. It is a very curious political project, because it's got supporters on both the right and the left. I myself feel so strongly about Basic Income as an entitlement of citizenship that I would accept any political coalition to see it onto the statute book. It must not be a political football.

Certain entitlements must be removed from politics. The state pension has been — and, interestingly, it's also sacrosanct in the US, where President Reagan never touched 'social security'. But child benefit was, as we know, in danger. And even the right to vote was in some sense threatened by the poll tax. We have no constitutional guarantees for anything.

#### **SR: How should Basic Income be brought in?**

**RD:** It must be done across the board. One way is to make sure first that particularly needy groups have a certain level of income. The other way is to establish it at a particular monetary level for everyone. I have a certain preference for the latter, as I am an advocate of it as a right of citizenship. But I can see the case for the other method.

I suppose one has to mention the Seattle and Denver experiment, which took place in the 1970s<sup>2</sup>. Pat Moynihan, the US Senator, who wrote *The Politics of a Guaranteed Income*,<sup>3</sup> had a considerable following. Being very flexible, the Americans decided to try it out in two urban areas and see what happened. The result was that divorce rates went up and people seemed less inclined to look for work. The effect on political opinion was predictably unfortunate. Alaska has also tried it, more recently, using their oil revenues — we'll hear more about it at BIRG's conference in July. And has Norway tried it?

But there are new pressures which will force people to consider Basic Income seriously. One is that the world of work is changing. For example, there are two million unemployed people in Germany, over one million of them unemployed for more than two years. And the remainder don't work all that much. Ordinary people don't work on Saturdays or Sundays, which means 104 days off in a year; there are 20 public holidays and 28 days' annual paid holiday, and it's reckoned that everybody has an annual 'flu of two weeks — so half the days of the year are not work days! Since the average day's work is only seven hours, Germany is no longer a work society. The Germans get their self-image from things that have nothing to do with work. There is an enormous leisure industry. Britain is still rather different, but when I see unemployment rising I wonder if we shall ever be a work society again. People will have to organise their lives without full-time work.

We still calculate wages on the basis of hours worked, and productivity by the number of people employed which is quite misleading. Perhaps we should follow the Japanese trade unions which — I am told — have robots as members, and charge enormous membership fees! When you think about it, it's quite a good idea. If you replace secretaries with computers, why not tax them?

Such a machine or computer tax could help finance Basic Income.

Part of this will happen in any case, by stealth. At some stage we'll have to rethink insurance-based benefits, because they assume a world of work which no longer exists. We have to be prepared for that moment, and when the moment comes the idea — BASIC INCOME — must be there.

#### **SR: So do you see Basic Income as, in the end, inevitable?**

**RD:** The recent tendency all over Europe and America to return to the tribe is something to which I am strongly opposed. The whole point of citizenship is that it guarantees rights for everyone. A heterogeneous society is a great human achievement. The ethnicisation of the US, the desire to be homogeneous, is beginning to destroy America's greatest strength, that it was a melting pot. For the last 20 years it's been falling apart. I'm truly worried about America.

Europe, too, is seriously endangered. Going ethnic is the trend of the times and I'm afraid intolerance goes with homogeneity. Basic Income won't happen in those circumstances. It needs the concept of citizenship, which is the real lever for a civilised and liberal society.

*Sir Ralf Dahrendorf is currently warden of St Antony's College, Oxford.*

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# Income distribution in Czechoslovakia

Jiří Věčerník

This article, the first from Eastern Europe to appear in a BIRG Bulletin, originates from a paper prepared for the **Third Summer Workshop of the Luxembourg Income Study**, at Walferdange, Luxembourg in July 1990. In it Věčerník describes the extraordinary system of income distribution in former Soviet bloc countries, and hence the difficulties of introducing Basic Income at this stage.

In her quest for a just and economically efficient income distribution system, Czechoslovakia faces problems of extraordinary difficulty. One such problem is the considerable imbalance between economic and social goals, that is to say between labour market efficiency and minimum income security. In a situation where earnings differentials are already narrow and the share of GNP going to wages needs to be contained, even the introduction of a national minimum wage (and/or increases to it) will narrow differentials further. If social security benefits were also increased, as much as is discussed, what remains of work incentives would disappear, and inflation would take off. In Western countries, crisis in the welfare state is seriously discussed, and strategies for deregulation of the labour market and withdrawal of state intervention are carefully studied. But in the controlled economies of the former Eastern bloc countries, the intrinsic problems of economic and social mechanisms are underestimated.

The post-Communist Czechoslovak government's strategy for economic recovery does not even consider the implications for income distribution and economic inequalities. Indeed its first steps to restore a market economy and improve social welfare were taken without knowing the exact nature of the existing income distribution system. For instance, nobody has studied how the inequalities came about, or how they could be dealt with. Many important questions remain unanswered.

The purpose of this paper is to look for reform strategies to bring about a new system of income distribution, which will be effective both in economic and social terms. First, I shall look briefly at the existing income distribution system. Then I shall try to explain the inequalities of rewards in terms of a mixture of exploitation and social guarantees. And finally I shall elaborate on the persistent confusion in Czechoslovakia between economic and social principles, which at present is one of the obstacles in the way of Basic Income (BI).

## 1. The past system of income distribution

State socialism is allegedly egalitarian. In ideological

terms it is supposed to achieve a condition of absolute equality — through purposeful levelling strategies, widespread income redistribution and a large proportion of collective consumption. But the reality is different. It is far more complicated than the ideology and not at all clear cut.

Eastern European societies are characterised by considerable levels of inequality. These are the result of at least four, relatively autonomous, distributive sub-systems, which can be distinguished on both the demand and supply sides of the economy. These sub-systems can be illustrated in a three-dimensional model (Table 1). The first dimension shows whether the distribution is *open* or *hidden*, the second whether it is *legal* or *illegal*, while the third distinguishes between the *demand* and *supply* sides of the economy. Every citizen's well-being depends on the extent to which s/he is included or excluded from the different segments. Moreover the scope for participation in more than one segment produces enormous inequalities. Yet in practice the divisions and boundaries between the segments are far less distinct than the Table suggests.

**Table 1: Scheme of distribution system in state socialist countries**

### DEMAND SIDE

	Apparent	Hidden
Legal	1 Wage system in formal economy	2 Benefits, bonuses, privileges of 'ruling class'
Illegal	3 Private initiative in informal economy	4 Abuse of functions and of managerial authority

### SUPPLY SIDE

	Apparent	Hidden
Legal	1 Official [first] distribution area	2 Unofficial [second] distribution area
Illegal	3 Informal market of goods and services	4 Various dispositions of state property and production

Regarding the demand side of distribution, statistical surveys refer only to the official distribution of wages (i.e. cell 1 in the top part of Table 1). According to job specifications, we then have to speculate about the possibilities of informal economic activities, e.g. paid work for others, done very often during official working time, using stolen materials (cell 3). Very soon, obscure rules and other documentation will be made available, which will show the official (but confidential) perks of party members and bureaucrats (cell 2). Despite this, it is unlikely to be possible to collect comprehensive information about the immense stream of money, goods and services within the public sector, or to find out who are the real keepers and managers of 'ownership by the people'.

In an economy where everything is in short supply, goods and services are much scarcer than money. So their allocation is monitored and controlled even more strictly than the distribution of incomes. Segmentation on the demand side is reproduced (more or less) by segmentation

on the supply side. The official wage system matches the official distribution market: sociologically speaking, this is the 'WE' market (cell 1 in the bottom part of Figure 1). The privileges of the ruling class correspond to the 'second', unofficial distribution area (or even the 'third' and 'fourth' distribution areas, according to the person's position in the party hierarchy), with special (Western) products and special (top quality) services. We can call this the 'THEY' market (cell 2).

Goods and services on the informal market are seldom for sale — for example production materials monopolised by state enterprises, scarce durables, apartments, 'free' services (cell 3). Top positions in the political hierarchy authorise their holders to all sorts of goods and services, including special medical treatment. Such services are usually provided free of charge, enabling those who enjoy them to put their spare cash into savings, wealth creation, property, or use it to support relatives and extravagant offspring (cell 4).

In the last two years, Czechoslovakia's 'velvet' revolution has radically altered the language of economics and has begun to transform economic thinking and acting. But until now changes in the economic mechanisms and the system of income distribution have been superficial. The wealth of the previous ruling class remains almost unchanged — and most top bureaucrats still hold important positions. Only a small part of the informal economy has been 'formalised' and the administrative and psychological barriers remain powerful. For the time being, some of the new laws are tending to open rather than close the opportunities for bureaucrats to manipulate other people by using the state's assets. So far only the 'legal-but-hidden' privileges of the old ruling class have been abolished. 'Money laundering' by former party bureaucrats and new speculators, especially those with access to western currency, is one of the most frequently discussed topics in the debate about privatisation.

It seems probable that the move towards free markets and privatisation will complicate rather than simplify today's picture of segmented inequalities. Without doubt, on the long road towards 'normalisation' — by linking living standards to job performance — new inequities and new sources of inequalities will appear. In that case, the 'segmentation pattern' of inequality will be strengthened rather than abolished.

## 2. Rewards for work: a peculiar mixture of exploitation and welfare

Wage distribution under state socialism is an odd mixture of economic exploitation and universal insurance, which (insofar as the official distribution system is concerned) gives the State complete control over the living standards of every individual and family. The results are a permanently low — *but stable* — living standard; and poor — *but guaranteed* — living conditions.

Elsewhere I have argued<sup>1</sup> that the system of distribution in state socialism is best explained in terms of Marx's concept of exploitation in reference to the development of early capitalist society — rather than in terms of the true 'socialist' principle *from each according to his abilities,*

*to each according to his work*. Socialist 'entrepreneurs' do not pay according to the work done, because in an economy without a labour market work does not have a price. Instead, it is enough to pay the cost of labour-force reproduction, which is centrally established for all workers, according to their qualifications and sector of production. Under state socialism there are no links, either direct or indirect, between rewards for work and labour-market performance, or between individual effort and career prospects.

During the period of state socialism, wage determination showed the following characteristics:

- Considerable wage levelling at first, followed by a long period of stability
- Wage differentials based on demographic factors (gender and age differences) rather than occupation or qualification
- No specific differentials between manual and non-manual workers
- During periods of wage stagnation, redistribution in favour of workers' groups with higher costs of reproduction.

The main features of remaining wage differentials are best explained in terms of exploitation. For example, the considerable difference between men's and women's earnings can be explained in terms of the greater contribution made by the husband to the family budget, and the complementary contribution of the wife. The unit of reproduction being the family or household, the wife's earnings are regarded as a necessary supplement, to cover living costs. More recently the men/women earnings ratio decreased only slightly, despite large changes in the qualification and occupational structure of the female labour force. Similarly, we may use the family life cycle as an explanation of age discrimination. Age-related wages reflect the rising reproduction costs of families, as their children grow up.

For similar reasons, many manual workers (especially those in heavy manual work) are paid more than non-manual workers. Wage differentials between educational categories are very small and continue to diminish. A comparison of cumulative earnings shows that they hardly compensate for earnings foregone as a result of study, or for the costs of schooling. Therefore, motivation to study does not originate in expected economic returns, but rather in more convenient working conditions and the acquisition of social and cultural capital.

Unfortunately it is impossible to produce accurate figures for these trends during the period of deepest 'revolutionary' activity. Data from the 1970 income survey are the earliest obtainable. Yet the period of so-called normalisation (after the 1968 Soviet occupation) illustrates a period when earnings distribution was subject to extreme socialism. Indeed, from many points of view, this period was a faded copy of the Stalinist 1950s. Table 2, covering the years 1970 and 1984, shows the following:

- Persistence of wage differences between men and women
- Relative improvement in wage position of skilled workers, compared with wage stagnation of workers with secondary education, and marked deterioration of wage position of college-educated workers

- Relative gains in agriculture and manufacturing industries, by comparison with the service sector
- Older workers gain relative to younger workers.

**Table 2 Multiple classification analysis of earnings in 1970 and 1984 Czechoslovakia**

	<i>Net deviations from mean (%)</i>	
	1970	1984
<i>Sex</i>		
Men	+15.8	+17.8
Women	-22.0	-19.2
<i>Education:</i>		
Elementary	-9.8	-13.1
Vocational	-3.0	-3.8
Lower specialised	+2.3	-0.9
Secondary	+9.4	+8.5
University	+38.9	+25.5
<i>Age:</i>		
20-29	-11.0	-14.8
30-39	+1.1	+0.6
40-49	+7.6	+8.5
50-59	+5.0	+6.0
<i>Production sectors:</i>		
I. Agriculture	-5.5	-0.2
II. Manufacturing industry	+1.5	+4.0
III. Transport, communications, commerce	-1.9	-2.2
IV. Banking, education, health, social services	-2.0	-6.1

*Source:* Income Surveys

*Notes:* In 1984, the lowest earnings went to women with elementary education, age 20-29, employed in Sector IV. Net deviations were: -19.2%; -13.1%; -14.8%; -6.1% = 53.1% below average. The highest earnings went to men with university education, age 40-49, working in manufacturing industry. Net deviations were: +17.8%; +25.5%; +8.5%; +4.0% = 55.8% above average.

Taken together, in the context of falling real wages during the 1970s and 1980s, these trends show gains for workers' groups with the highest costs of living. This development was no more than a continuation of former trends, and expressed the intrinsic logic of the economic establishment — and of the social system as well.

Although from one point of view we can regard the socialist state and socialist enterprises as institutions of organised exploitation, from another point of view they operate not as economic institutions but as social ones. They provide employment and wages for everybody, regardless of an individual's performance or economic worth. At the aggregate level the situation can be summarised as follows:

- Full employment, with demand for labour permanently exceeding supply, despite labour-saving measures
- Guaranteed wages for everybody and prolonged narrowing of differentials, despite endless wage reforms.
- Increasing proportion of 'soft' jobs, despite official proclamations about the need for efficiency.

The amount of *paid non-work* (like that of *unpaid work*)

is hard to imagine, and even harder to estimate. One can hypothesise that at least one-quarter of the labour force are well-paid *state pensioners*, whose work is either entirely useless or even damaging to the economy and to society. Approximately another quarter work really hard (e.g. women in light industry and commerce). The rest is a grey area of partly useful and partly useless workers. The reality is well expressed in the popular saying that *workers pretend to work and the state pretends to pay them for it*. The ideological justification for state socialism was the establishment and protection of employment, wages and social benefits. People have got used to working and living in positions where they are exploited and protected simultaneously. For minimum effort they got job and wage security.

### 3. Transition towards a market economy: economic versus social criteria

In general terms one can describe income distribution in the socialist state as an incoherent mixture of economic and social criteria. On the one hand, the system of employment and rewards for work fulfills labour-market and social-welfare functions simultaneously. On the other hand, housing subsidies follow party interests, by favouring the ruling class and facilitating personnel allocation. Instead of supporting those at the bottom of the income distribution, housing policy favours middle- and high-income households.

The same holds true for the pricing system. Until recently food consumption was subsidised, whereas consumption of clothing and durables was more or less heavily taxed. So income transfers between households depended on their expenditure patterns. Then in July 1990 food subsidies were replaced by a new *equal benefit for all* (worth 140 Crowns per person per month). By comparing expenditure on food before and after this change (see Table 3, column 1), we can learn much about income redistribution in socialist Czechoslovakia. Those benefiting most from the food subsidies were single people, pensioners, families with many children and low-income families. Thus the main beneficiaries were single pensioners on low income ( $8.3 - 2.1 + 50.9 + 7.5 = 64.6\%$  over the average). By contrast those benefiting from the new benefit are the better-off and young people (column 2). Those who have done worst are single people and low-income families. The main losers are exactly the same household types (i.e. low-income single pensioners) who did best out of the food subsidies ( $-14.4 + 3.6 - 87.2 - 12.8 = -110.6\%$  worse than the average).

In January 1991 prices were liberalised, except for certain basic goods, and the old system of turn-over tax (of which there used to be several thousand rates) was considerably simplified. Nevertheless, prices are not yet free-market. Contamination of the pricing system by 'social criteria' remains, with the result that living standards depend on other factors beside incomes.

The tax and social security systems both remain complex. The direct tax system is a mixture of personal taxation (wage tax for employees) and household taxation (income tax for self-employed and employers). The benefit system

is also a combination of individual and household assessment units. Recent changes include a national minimum wage, an earnings-related unemployment benefit (both absent until now), and a sort of social wage for mothers (or fathers) staying at home with their pre-school children (which already existed, but has been extended and increased). More recently, the 'social neediness' line, which serves as a base for means-tested benefits provided by the local authorities, has been re-defined.

**Table 3: gainers (+) and losers (-) from food subsidies, compared with new 'equal' benefit**

	<i>Net deviations from mean (%)</i>	
	<i>Food subsidies</i>	<i>New benefit</i>
<i>Number of adults:</i>		
1	+8.3	-14.2
2	-0.8	+1.4
3	-0.3	+0.5
<i>Number of children:</i>		
0	-2.1	+3.6
1	-1.4	+2.4
2	+0.7	-1.1
3	+3.8	-6.5
<i>Age of head:</i>		
Below 30	-24.3	+41.7
30-39	-9.5	+16.3
40-49	+16.2	-27.9
50-59	+38.3	-65.7
Above 60	+50.9	-87.2
<i>Quartiles of household income:</i>		
Lowest	+7.5	-12.8
Second	-0.3	+0.5
Third	-2.3	+3.9
Fourth	-6.1	+5.2

*Source: Expenditure surveys*

The complexity of these arrangements would be bound to affect public reaction to Basic Income. BI is one way (perhaps the best way) to integrate taxes and benefits. With a BI incomes can never fall below a certain level. The main purpose is to give income security to everybody — to prevent poverty, on the basis of citizenship and need.<sup>2</sup> It is an attractive concept, especially the idea of reconstructing the tax and benefit systems as a whole. But it also has requirements and costs.

In Czechoslovakia, until the boundaries between economic and social policy have been clarified, it is hard to imagine their functional integration. Similarly, until more is known about the problem of poverty — its nature, amount and dynamics — it is hard to decide how best to prevent it. In general terms, the first priority must be wealth creation. Additionally, major administrative changes are necessary. Take income tax as an example. At present Czechoslovakia has nothing comparable to Britain's Inland Revenue. The separation of social security contributions from the rest of the state budget, and the training of staff for collection of tax and payment of benefits are urgent priorities. Only after the wealth starts

to be created and new administrative institutions are in place will it be possible to begin serious discussion about integration of the tax and benefit systems.

## 4. Conclusion

The study of income inequality and income distribution systems should not be allowed to become theoretical. Practicalities and policy implications must not be forgotten during the forthcoming transition towards a society where (we hope) economic terms will mean what they say, and the omnipotent, omnipresent state will be replaced by greater plurality on both the supply and demand sides of the economy.

In all the former Eastern-bloc countries we need to establish a new economic order as well as a new civil order. This calls for discussion about the role of the state and the inter-active effects of labour-market, taxation and social welfare policies. Not only must we observe and measure existing inequalities, we must also tackle and reduce them by effective policies of income redistribution. In our analyses and comparisons of statistical data, we will need to exercise great caution, until the 'normal conditions' of the market economy and the autonomous nation state are established.

In the circumstances, I suggest the following:

(1) *Start by dismantling the 'state socialist' segmentation of inequalities I have described; and concentrate the processes of income distribution round the official labour and financial markets.* This task is more complicated than it appears, due to the concentration of capital in the hands of two groups typical of the communist regime. These are former senior party bureaucrats, and present speculators and black economy 'gurus'. Both groups are opposed to the 'ethos of capitalism'.

(2) *Establish a labour market, and stop allocating and rewarding labour by administrative regulation.* The creation of a labour market, together with liberalisation of wages, will shift the balance of rewards in favour of true job qualifications by comparison with non-economic factors.

(3) *Get rid of the confusion between economic and social factors as criteria for income distribution.* No effective redistribution policy is possible so long as redistribution by the state is omnipresent. No effective social policy is possible so long as social considerations take precedence over economic factors.

Change raises people's expectations, yet the present situation is fraught with dangers. The complexity of the problems is compounded by difficulties as a result of trying to restore market mechanisms in societies where moral values are at odds with the market model. Until now the main questions stressed were global questions about privatisation, price liberalisation and financial markets. But soon the problems of the labour market, income inequalities and social policy will become much more urgent. So far, neither the policy makers nor the social scientists are ready to solve those problems.

The experiences of the United Kingdom and other European countries are useful in debating alternative approaches to social policy, but our own economic system is being rebuilt from scratch, while our social policy is still basically built on the principles and institutions of the past. Radical modifications to the existing, already fragile, social security system could therefore be extremely dangerous. On the other hand, once the difficulties of this first period are overcome, once more resources are available for welfare and new administrative institutions are in place, then the question of integration can be raised with much more urgency.

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# Basic income, democracy and the labour market

Georg Vobruba

The following article is based on a paper presented at the **Third International Conference on Basic Income** in Florence in 1990. For a more detailed argumentation see: **Moderne, Modernisierung, Sozialpolitik**, Georg Vobruba, discussion paper 4-91, Hamburg Institute for Social Research.

Freedom and self-rule have long been two aspects of the way of life that claims the title 'modernity'. Since the 18th century Enlightenment, the freedom of rational individuals to form their own beliefs and pursue their own interests has been championed by progressives, against the counter-claims of those who bemoan the disorientation, loss of security and solidarity, and industrial squalor, which accompanied the break-up of pre-industrial societies.

Yet the relationship between freedom and self-rule, and the institutional framework for implementing them, remains unclear. The notions of 'self-regulating' individuals and societies, and of 'self-rule', imply a kind of autonomy for the economic and political actors which cannot be taken for granted. Proponents of modernity are therefore required to show how these could be achieved.

Perhaps the two most important instruments for self-rule in modern times are parliamentary democracy and the labour market. Both confront the same issue — namely, how to organise political and economic living conditions in the interests of the individual. Both also promise decentralised 'bottom-up' solutions, insofar as people make their own living conditions as 'workers and voters'.<sup>1</sup> These ideas are attractive, but they do depend on certain preconditions.

## Capitalism and democracy

It is instructive to take up an ancient argument against universal suffrage. On 29th October 1647, for instance, the Leveller Petty argued that apprentices, recipients of alms and servants should be excluded from the right to vote, on the grounds that they depended on the will of others and must therefore be afraid of disagreeing with them.<sup>2</sup> Today in Germany we would face a comparable problem if, for example, investors threatened to stop investing — and creating jobs — if the Green Party won the elections. In their capacity as workers, voters are forced to take such economic threats seriously.

To restrict the franchise to those whose political independence is based on private ownership and economic independence is a traditional solution to a modern problem. But obviously it is not the only solution. Instead

of disenfranchising those who depend on others, one can also give them the economic independence necessary to ensure political independence. This argument can lead to the idea of an 'owner-society'. And although common ownership of the factors of production is incompatible with capitalism, and is probably neither feasible nor desirable (insofar as socialism is less productive than capitalism), history shows that the idea of universal ownership is nothing more than a romantic solution to a fundamental contradiction between capitalism and democracy.

Clearly there is a link here with Basic Income. Insofar as BI diminishes dependence on paid work, it gives voters the opportunity to vote according to their consciences. From which it follows that the introduction of a Basic Income would enhance democracy.

## Choice in the labour market

The neo-classical image of the labour market is attractive, because it includes the genuinely 'modern' idea that people can compare the value of paid work with the value of alternative uses of living time. According to neoclassicism, individuals value paid work in terms of income and job satisfaction, and compare it with the value to them of leisure activities and productive activities outside the workplace. The implication of the neo-classical image of the labour market is that people decide to participate in the economy according to a comprehensive calculation of competing interests. Neo-classicism incorporates a vision of free choice for the overwhelming majority, whose separate choices build and regulate the economy (hence Adam Smith's "invisible hand").

In reality, of course, freedom of choice is highly restricted. There are — beginning with the least important — several institutional constraints, for example the distribution of working hours in the form of 'full-time' and 'part-time' jobs, and the employment-based social security system.<sup>3</sup> These constraints result in all-or-nothing situations, and block the fine tuning of individual interests. More importantly, the hidden, fundamental precondition of the neo-classical image of the labour market fails to operate. So long as people's income comes solely from employment, there is no scope for balancing earnings against work satisfaction, or for balancing the value of paid work against the value of other activities. The ability to escape one-dimensional, work-income maximisation, depends upon alternative sources of income.

Here again there is an obvious link with the case for a guaranteed Basic Income. BI provides that alternative source of income which the neo-classical image of the labour market (incorrectly) presupposes.<sup>3</sup> BI would put a financial value on activities like caring, art, community work or environmental conservation, which at present are assumed to have no financial value. BI would allow individuals to balance the options, and make a real choice between alternative activities.

Far from being an alien element, BI is arguably a means of improving the labour market. It could be the backbone of the supply side of the labour market, in the neo-classical sense — the landmark between theoretical and real economic freedom.

## A question of politics

It follows that introduction of a guaranteed BI is a precondition for a modern, decentralised, 'bottom-up', self-regulating economy. If we go back to our starting point that parliamentary democracy and the labour market are two of the most important projects for 'modernity', the guaranteed BI can now be seen as a requirement for it.

But who will require it?

This simple question suddenly draws attention to the fact that, up to now, the argument has excluded those most affected — a common flaw in Basic Income discussion.<sup>4</sup> Who has an interest in expanding the possibilities for political participation? Who wants to introduce the preconditions for freedom to choose in the labour market? Or, more generally, who is interested in 'modernity'?

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# At Home and Abroad

We rely on readers to keep us informed about events concerning Basic Income world-wide. If you know of something that may be relevant, please write to The Editor, c/o BIRG.

## HOLLAND

### Quality of Citizenship Conference, Utrecht March 1991

**Bill Jordan writes.** The concept of BI featured prominently in the distinguished opening addresses given at a conference organised by the Department of General Social Sciences at the University of Utrecht. The speakers were Hedy d'Ancona (Dutch Minister for Welfare); Professor William Julius Wilson (Chicago University, and author of *The Truly Deprived*); Professor Jürgen Habermass, the German social theorist; and Sir Ralf Dahrendorf, Warden of St Antony's College, Oxford. The large international audience in the 16th century cathedral heard three of the speakers refer to BI as a measure that addresses the issues of citizenship for the next century.

It was Sir Ralf Dahrendorf's analysis, however, that developed this theme in greatest detail. He argued that the fashionable attempt to define social citizenship in terms of labour-market obligations is fundamentally misplaced. Citizenship is a non-economic concept, and membership status should be independent of the relative value of the citizen's economic contribution. Entitlements should therefore be unconditional, as they are in the case of civil and political rights. But the gradual extension of basic entitlements was halted in the 1980s in favour of an emphasis on supply side economics. The challenge posed by the changes of that decade for advanced capitalist countries has been the emergence of a sizeable group of working-age people who are 'not needed' in the economy, yet pose little political or social threat to the comfort of the majority. The moral issue is whether the majority are willing to grant them rights which allow full membership, when obligations (paid work, taxpaying) are for the time being unenforceable or irrelevant. The BI proposal raises these fundamental issues in the most direct way.

## FINLAND

**Tony Walter writes:** At the invitation of BIEN member Jan Otto Andersson, I visited Finland in April 1991 to teach a short course on BI in the Economics Department at Abo Akademi, the Swedish speaking university in Turku.

I started with the question of how to meet basic needs without undermining liberty, and how various societies have approached this problem; this led into an introduction to the historical background to the BI debate, in the UK and elsewhere. But the course really took off when I sketched the pros and cons of nine arguments for BI — getting the group to discuss in pairs whether each argu-

ment was valid for Finland. I have rarely seen students discuss with such intensity — particularly remarkable for Finnish students not used to discussing in class! The quality of their discussions was excellent, so we concluded the course with an examination in which class members verbally answered questions put to them by their colleagues. Some of the questions, along with the answers, showed that the students had really grappled with the issues.

In future, I would move into the discussion format earlier — the arguments for and against BI are easily grasped but not easily resolved, so make excellent discussion material. Straight lectures on the historical, social and political context of the debate, however, may produce too much background information for students to grasp, especially if they are from another country.

## UNITED KINGDOM

### Anglo-German conferences on

*The Future of the Welfare State in Europe (Central London Polytechnic) and Efficiency and Justice in Social Welfare (Nottingham University), April 1991*

**Bill Jordan writes:** These two conferences sponsored by the Goethe Institute were attended by Professor Claus Offe and his colleagues from the Centre for Social Policy Research at the University of Bremen, and by other German scholars. The British participants at the London conference were drawn from central and local government politicians and officers, voluntary agencies, researchers, journalists and activists, as well as academics. Those at Nottingham were mainly from social policy departments of universities and polytechnics.

BI hovered in the air at both meetings, more in the manner of an irritant insect intrusion than a topic to be embraced. German speakers referred to it with polite nervousness, while the British swatted at it crossly. But it refused to go away. The different tone of the two national contingents towards BI can perhaps be explained in terms of their social policy traditions. The Germans are more open to large-scale systems of planned social development, but conscious that these must be reconciled with economic and political goals. The British deal in ideological conflict, and prefer to attack or defend the existing institutions of the welfare state.

The possibility of a European BI was discussed in a paper by Professor Stephan Leibfried at Nottingham. Pointing out that the EC budget was spent disproportionately on agricultural support, with only a tiny amount on social issues, he speculated that a shift from price guarantees to income guarantees for farmers might imply that the first Euro BI could go to this group, setting a precedent for its gradual extension to the wider population.

### Seminar at the London School of Economics

**Hermione Parker writes:** On 6 February I gave a paper on *Child benefit, child tax reliefs and Basic Incomes* at

one of the regular Wednesday evening seminars organised by Maria Evandrou of STICERD. The paper referred to the comparative analysis by Holly Sutherland and myself summarised elsewhere in this Bulletin. Given that the report comes down against child tax allowances, and emphasises the advantages of partial BI, it was good to see civil servants from the Department of Social Security and the Inland Revenue among the audience. But there was a definite feeling that if BI is to become politically acceptable, it must start small.

## Basic Income and women

**Hermione Parker writes:** A new BIRG study group, looking at the implications of BI for women, is well underway. The meetings are being held at Age Concern's new offices in Walkden House (near Euston station), and it is hoped to publish a discussion paper summarising the findings during 1992.

## BIRG North-West

**Kevin (BI The Best Step Forward) Donnelly writes:** Presentation of BIRG ideas continues, through formal talks, mailings, stands at conferences, informal meetings with the caring professions, contacts at party-political meetings, in the workplace, letters to newspapers, radio interviews, and contacts with local councillors, MPs and MEPs.

The Society of Friends Monthly Meeting in Manchester welcomed a factual presentation and asked other Friends to consider the issues raised by BI. South Manchester College Chaplains, concerned with low-income students, have offered opportunities to talk about BI to their students, some of whom don't fit any of the DSS benefit categories. The Christian Council for Monetary Justice, which is concerned with banking and credit issues, gave me a good reception. Greater Manchester Industrial Mission, whose Rowland Goodwin is a BIRG member, asked for an update meeting at which knowledgeable people asked some tough questions.

The Diocese of Shrewsbury's Justice and Peace Conference included a workshop on BI attended by sixteen attentive listeners. Thanks to Martine Walther, all the other 200 or so delegates were mailed as a follow-up. The same diocese has a branch of Young Christian Workers, whose BIRG member Andy Bowden along with Anne-Marie Finnegan set up a day-long meeting of young people thinking about employment, careers and domestic situations. BIRG was there too!

South Manchester Health for All programme is looking at quality of life in Wythenshawe, and again the economic weakness of the township means that BI was promoted as a positive proposal: first to the Senior Citizens Festival, then to the Northenden Festival.

Finally, the Red-Green Network conference on ecological issues at Kingsway College in London featured a BIRG stand. Most of the 150 attenders seem to have visited the stand and talked about BI. I just couldn't make the Conference of Socialist Economists the following weekend! On the other hand, Paul Goffins of the Manchester-based

Church Action on Poverty did come to see me and talk about strategies and points of common interest.

Despite the progress, one letter from a retired evangelical Baptist teacher complained that paying BI to "all and sundry" would "produce a nation of malingeringers". Truly, Calvin lives, or at least, a cold-eyed version of the Protestant ethic still does. But there are enough people who can see that something needs to change. One woman spoke to me in a shop about my BI badge, saying she'd been in favour of it for years.

So by poster, badges and labels, an A5 leaflet, and an A6 mini version, carrying the message *BASIC INCOME — THE BEST STEP FORWARD*, BIRG North West is generating an informed dialogue. The next stage is to seek specific commitment. The new, yellow reply card tries to do just that. It asks respondents to say what they are prepared to do: endorse the BI idea, join BIRG, write to their MP, receive *Stirring Times*, or help join/form a support group.

Plans are also in hand for a larger scale BI promotion in April 1992, when we hope a North West local authority will sponsor a BI convention.

## BIRG Annual Conference, 12 July 1991

**Tony Walter writes:** Birg's annual conference at Toynbee Hall in London's Docklands was, for my money, the best so far. Not only did some big names attract a good attendance (about 80), but their presentations all contained real meat.

BIRG recognises that disseminating the idea of BI is an essential follow-up to the research and consultations on which we have concentrated in the past — hence the conference title *Getting the Message Across*. David Smith (a psychologist and social research consultant) recently completed a pilot project for Age Concern on the attitudes of elderly people and others to the present social security system and the possibility of BI. His report shows how partial even educated people's understanding of the present system is, from which he concluded that BIRG's literature to date assumes too much basic knowledge. He also identified two kinds of response to BI: some people ask what would be in it for them, while others examine it in terms of the common good. Both David and Bill Jordan — the latter reporting on his recent research into the work histories and attitudes of upper-income households — suggested that women may be more likely than men to assess BI in terms of the common good rather than narrowly perceived self-interest.

Then came something completely different. Professor Patrick O'Brien had flown over from Alaska to give us more information on the setting up of the social dividend programme that has been disbursing oil royalties to Alaskan residents every year since 1982 (see BIRG Bulletin No. 12). His lively presentation clarified the context and operation of a unique programme.

Paddy Ashdown MP, leader of the Liberal Democrats, outlined his party's proposal for a citizens' income — a

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# BULLETIN 13

BASIC INCOME RESEARCH GROUP      BULLETIN NO 13      £3.00      AUGUST 1991

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MARC BOEUF ON  
SOLIDARITY

BIRG

JAMES MEADE ON BI IN THE  
NEW EUROPE

BIRG

CHILD BENEFIT, CHILD TAX  
ALLOWANCES OR BI?

SUSAN RAVEN TALKS TO  
SIR RALF DAHRENDORF

INCOME DISTRIBUTION IN  
CZECHOSLOVAKIA

BIRG

VOBRUBA ON BI AND  
DEMOCRACY

The other visionary point has to do with a possible link between social capital and Basic Income: it is not a new point and goes back at least to Meade's marvellous book of 1964.<sup>1</sup> For the social dividend (or Basic Income) could be regarded as an *income-from-property-right*, financed out of socially owned capital (a capital levy): budget surpluses could have been used for this. Such a device is not on any party's immediate political agenda, but it does sit nicely with the "sufficient competence" notion, as a coherent view of the right to an adequate life for all in rich countries.

So much for vision. Now for the nuts and bolts. As already noted, Webb's structure has the obvious disadvantage of being based on the family rather than the individual, "but it does represent a more natural extension of the present system where income-related social security benefits are similarly based on the family unit. It is also a far cheaper approach since no income supplement need be paid if one partner has sufficient income for the whole family" (page 29).

Webb produces three schemes (page 30 *et seq*) which I have summarised in the Table. All are based on an extension of family credit, which is presently means tested. Under Webb I it is extended to poor working families *without* children; under Webb II it is integrated with income tax; and under Webb III with income support. In each case the marginal tax rates could be brought down below the figure indicated by using higher benefit withdrawal rates.

#### **Steven Webb's three 'BI' options**

	CURRENT	WEBB I	WEBB II	WEBB III
Poor non-working families	Income Support	Income Support	Income Support	
Poor working families without children	Nil	Family Credit	Integrated Family Credit and Income Tax	Integrated Minimum Income
Poor working families with children		Family Credit	Family Credit	Integrated Family Credit and Income Tax
Non-poor working families	Nil	Nil	Integrated Family Credit and Income Tax	
Marginal Income Tax rate	25%	25%	44%	40%

Though the proposals are obviously a move in the right direction, there are some snags: thus special provision has to be made to prevent pensioners losing, and some important groups (childless couples, women in part-time work) would actually lose out. It is clear that by Webb III family credit has been transmogrified into a universal benefit. Samuel Brittan is a little reluctant to go down his co-author's route, preferring to start with the universal child benefit and increasing it greatly, while at the same time taxing it (as in Johnson's 1989 proposal<sup>2</sup>).

There is, then, some creative tension within these covers. The preferred route must be partly a matter for political judgement: would it be politically more acceptable to *extend* the relatively high but means-tested family credit, or to *increase* the low but universal child benefit? My own preference would be to go down the taxed child benefit route, but I can quite see the attraction of the alternative route. Whichever one's preference the book

is to be warmly welcomed: it is good to see variations on Basic Income getting the detailed empirical analysis they deserve.

*David Collard is Professor of Economics at the University of Bath*

#### **References**

1. Meade, J.E., *Efficiency, Equality and the Ownership of Property*, Allen and Unwin, London, 1964.
2. Johnson, P., Stark, G., and Webb, S., *Alternative Tax and Benefit Policies for Families with Children*, Institute for Fiscal Studies (IFS) Commentary No. 18, London 1989.

## **Book Review**

### **FEATURES OF A VIABLE SOCIALISM**

**Hans Breitenbach, Tom Burden and David Coates**  
Harvester Wheatsheaf, 1990, 177 pages

**Bill Jordan writes:**

This book is long overdue. As the authors point out in the opening chapter, socialists have devoted far more energy to a critique of capitalism than to the development of a convincing blueprint for a socialist society. For forty years after the Second World War they were also engaged in defending or criticising the models of socialism developed in the USSR, Eastern Europe and China. With the collapse of the Eastern European regimes, the task of constructing a credible alternative to capitalism triumphant becomes both more urgent and more difficult.

The book is a courageous attempt to rise to this challenge. While referring constantly to a tradition of socialist thought, it makes few references to existing texts, but sets out boldly and clearly its prospectus and programme, going into some detail over the institutions, processes, laws, policies and relations that would shape a socialist society. One reason why it is of interest to readers of this journal is that Basic Income (BI) is a central part of this structure: an alternative title to the book might be *Design for a Basic Income Socialism*. It is intriguing to see how the authors combine a proposal to which many are attracted because of its libertarian and individualistic implications with the collectivist, planning and regulatory aspirations of the socialist tradition.

While rejecting centralised planning, the authors insist on planning as a means of addressing social and environmental costs, equalising incomes, avoiding waste and preventing insecurity. Their model relies on markets as the main means of allocating consumption goods, labour and capital; and on competition between enterprises to stimulate efficiency and growth. However, they recommend the elimination of private ownership of capital, its replacement by collective ownership under

democratic control, and collaborative, interactive procedures for decentralised planning, with state enterprises answerable to elected boards. Finally, the economy should be subordinated to 'democratically specified codes of conduct, and standards of performance, reflective of general socialist concerns with human rights, ecological protection, and support for progressive causes abroad' (p 58).

BI finds its place in this system as a means of reducing 'the extent of reliance on wage labour as the determinant of individual and household incomes' (p 33), and to allow individuals to choose whether to work or not. It would initially be set at a level sufficient for bare existence. There would be supplements for people with disabilities or chronic illnesses, caring responsibilities, and in old age. Most employment would be in state enterprises or cooperatives, but a small amount of employment by individuals would be permitted. There would be compulsory community service for youths (for education, training and to get essential jobs done). Wage differentials should be focused on getting demanding tasks performed, and should be gradually reduced. There would not be a formal right to work, but strong employment protection, collective decision-making in the workplace, retraining rights, and the BI would all contribute to workers being well placed in the labour market.

The importance of BI for the kind of society proposed becomes clear in the section on 'social life under socialism'. It is seen as a means of promoting caring work, giving it higher status, and reducing social divisions. It is also fundamental to the vision of a society in which culture and the arts would be developed as expressions of creativity and collective energy. Together with public facilities, the autonomy that BI would give citizens would allow the flowering of a better quality of life for all.

There is considerable tension throughout the book between the central concepts of 'viability' and 'socialism'. The former implies that the society envisaged in the blueprint must compete successfully with capitalist countries over a long period; the latter implies a rational and ethical approach to personal, social, economic and international relations, generated through education, peer pressure, regulation and the experience of the benefits of communitarianism. If the book had been written 40, or even 25, years ago, it would have read convincingly. Until then few people doubted that the rational management of national economies (within various forms of protectionist arrangements) was a plausible project, and there would have been strong arguments for attempting this kind of variant in preference to existing models. Now it is the concept itself that lacks credibility.

The book provokes the unconvinced reader to reflect on the main source of insuperable scepticism. For me it is the notion of a closed society, impervious to the pressures, opportunities and allure of the global economy. In the section on foreign trade, the authors write that 'the regulation of foreign trade would be part of a range of economic policies designed to secure the economic resources necessary for maintaining the continuity and efficiency of production ... We believe that all foreign trade ought to be subject to control by central government' (p 53). Planning should aim at import substitution and the full use of domestic productive facilities. Furthermore, socialist principles would impose 'the obligation to trade with poorer countries, not on the

basis of the most economic buy, or indeed the maximum protection of home industry, but in such a way as to improve the economy of those nations' (page 83). The authors acknowledge that 'in the short and medium term this would no doubt reduce the wealth available at home' (p 83).

These passages appear to overlook the major factor in the Eastern European revolutions, the Soviet upheaval, the collapse of apartheid in South Africa, the decline in national economic management and the erosion of welfare states. While the weakened political and moral persuasiveness of all these systems was an element in the process, it was the relative strength of global market forces, their impact on social and economic relations internally, and the comparative advantages of joining the international economic order (along with the penalties for remaining outside) that cooked all these geese in the 1980s. The implausibility of the authors' recommended project lies as much in their conception of an impervious, rationally-designed 'society', that can cut itself off from the impact of those forces on its citizens, as on any internal inconsistency in their version of socialism.

This leads to the speculation — which has gloomily borne in on me over the past decade — that if BI ever arrives, it will be as part of the process that has broken down nation states' attempts to protect their citizens' jobs and plan for their collective needs, rather than part of the defence against it. This implies that it will be associated with individualism and internationalism, rather than socialism and communitarianism. However, in the longer run, I believe that the principles (if not the instruments) prescribed in this book will have to reassert themselves, and that BI will have an honourable part to play in their revival.

*Bill Jordan is reader in Social Studies at Sheffield University, and author of *Trapped in Poverty?*, Routledge forthcoming.*

# Books and Papers Received

We rely on readers to keep us informed, by sending us research papers and publications on Basic Income (world-wide). If you have something you think is relevant, please send a copy to The Editor, c/o BIRG.

**The Building of the New Europe: National Diversity Versus Continental Uniformity**, J.E. Meade, Hume Occasional Paper No. 28, David Hume Institute, 1991. This is the second Hume Occasional Paper written by Professor Meade. In the first (*Agathotopia, The Economics of Partnership*) he set out his ideas on the reconciliation between capitalism and socialism — ideas which included Basic Income. In this paper he turns to the European Community, and asks how to reconcile far-reaching economic cooperation between the member States with legitimate diversity between them. An excerpt from the paper, in which he examines the Social Charter and the redistribution of income and wealth is published elsewhere in this Bulletin. The paper in its entirety is a must for anyone who wants to reach beyond the party political and media 'hype', in order to understand the critical problems facing the New Europe.

**Final Report on the Second European Poverty Programme, 1985-89**, Commission of the European Communities, COM(91) 29 final, Brussels, 13 Feb 91. The second poverty programme was intended as a contribution towards two objectives: to propose innovative and universally applicable measures based on field trials, and to cast light on the causes of poverty. Part 1 of the report sets out the facts of poverty in Europe (its extent, locations, and the main population groups affected). Part 2 traces the stages of the Second European Poverty Programme (which finished in 1989), summarises its activities and tries to draw lessons from it. Part 3 suggests approaches for consistent anti-poverty policies in the community. Interesting, but nothing likely to grab the attention of readers of this Bulletin. The approach is that of the Social Charter, i.e. a multiple-tier Europe with benefit entitlement dependent on the sex and work status (or former work status) of its citizens.

**Child Tax Allowances: A comparison of child benefit, child tax reliefs, and basic incomes as instruments of family policy**, STICERD Occasional Paper 16, Hermione Parker and Holly Sutherland, Suntory-Toyota International Centre for Economics and Related Disciplines, London School of Economics and Political Science, Houghton Street, London, WC2A 2AE, February 1991, price £5. Starting in 1989 considerable interest developed in the possibility of reintroducing child tax allowances in the UK, yet most proposals lacked the detail necessary to assess them. Relying mainly on TAXMOD (a micro-computer model of the UK tax-benefit system) the authors examined the effects of alternative approaches to child support in terms of income distribution, simplicity, work incentives and family life. See article by Parker and Sutherland in this Bulletin. See also **Child benefit, child tax reliefs and basic incomes compared**, Social Policy Research Findings No. 13. Four-page summary of

the Parker/Sutherland study, available from the Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO3 6LP.

**The Politics of Pensions**, Rt Hon Sir Norman Fowler MP, *Money Management*, Greystoke Place, Fetter Lane, London EC4A 1ND, February 1991. This entry comes with a BIRG health warning. In it Sir Norman Fowler (former secretary of State for Social Services and erstwhile colleague in the House of Commons of the late Sir Brandon Rhys Williams) uses the term *Basic Income Guarantee* to refer to a new benefit for pensions "similar to the family credit", i.e. means-tested:

*My aim would be to provide in effect a basic income guarantee for pensioners. That would be achieved by bringing up the income of pensioners to a target level by means of a pension credit. The credit would be similar to the family credit paid to low income working families, which has a similar effect in promising a guaranteed family income.* (Page 36)

Fowler must surely remember the many times Rhys Williams referred to his Basic Income Guarantee (or BIG) scheme in the House, always explaining that BI would be a right of citizenship, without a means test. To use the term in a contrary sense is confusing and wrong. BIRG invites Bulletin readers to write to 'Money Management' (as did BIRG's Director), or to the Rt Hon Member himself (at the House of Commons, London SW1), asking them to preserve the integrity of the debate by respecting the established meanings of technical terms.

**Basic Income and the Labour Market**, BIRG Discussion Paper No. 1, Basic Income Research Group, April 1991, Price £2.00. This 54-page booklet is the outcome of structured discussions between members of BIRG's labour market study group, some of whom came as avowed sceptics. The purpose of the paper was not to reach agreed recommendations but to set out the issues and different viewpoints clearly. Throughout the discussions a distinction is drawn between Full Basic Income and Partial Basic Income (PBI), with the former defined as an income sufficient to live on, and the latter as insufficient. The group concentrated on the effects of a PBI, because that is the only form which might be introduced in the foreseeable future. The indications are that a PBI would have beneficial labour-market effects, but is no panacea. Fears were expressed that a PBI might operate as a wage subsidy for low-paying employers, and some members thought a national minimum wage was the best way to avoid these effects. Others took the view that minimum wages would keep people with low earnings potential out of the labour market. Either way, BI would need to be introduced slowly as part of a wider package, which should include: improved training and further education; increased and improved child-care provision; and policies to combat prejudice — for instance racism, sexism and ageism.

**UK Poverty Statistics: A Comparative Study**, IFS Commentary No. 27, Paul Johnson and Steven Webb, Institute for Fiscal Studies, 3rd Floor, 7 Ridgmount Street, London WC1E 7AE, May 1991. Three recent studies attempt to show the extent of poverty in the UK. In *The Poor are Poorer: A Statistical Report on Changes in the Living Standards of Rich and Poor in the United Kingdom 1979-1989*, Professor Peter Townsend argues that income inequality increased during the 1980s, and that the

poorest fifth of the UK population are worse off now than in 1979 (after adjusting for inflation). In the *Final Report on the Second European Poverty Programme*, the European Commission concludes that more people live in relative poverty in the UK than in any other EC country. But in *Low Income Statistics: Households Below Average Income Tables 1988*, First Report of the House of Commons Social Security Select Committee (1991), the Institute for Fiscal Studies (IFS) reached different conclusions. Whilst confirming the growth in inequality, they conclude (using official Department of Social Security methodology) that the real incomes of the poorest tenth of the population may have grown by up to 10% during the 1980s. In this IFS Commentary, Johnson and Webb painstakingly explain and quantify the reasons for the differences. This study is another must for those who wish to understand a difficult problem.

**On the record,** *POVERTY* No. 78, Spring 1991, Journal of the Child Poverty Action Group, 1-5 Bath Street, London EC1V 9PY, £1.95. Tony Newton MP (Secretary of State for Social Security), Margaret Beckett MP (Labour's Shadow Chief Secretary to the Treasury), and Archy Kirkwood MP (Liberal Democrat spokesperson on social security) talk to journalists about their parties' programmes and priorities for tackling poverty in the 1990s. *In the long term*, says Kirkwood, *we will be trying to introduce a citizen's income. That would be a regular and non-withdrawable payment, which would be made to every individual, irrespective of gender or marital status, or income or employment status. We would have to integrate income tax and employees' national insurance contributions into one broad income tax rate.*

**The Wresinski Approach: the poorest — partners in democracy,** ATD Fourth World (UK), 48 Addington Square, London SE5 7LB, £6.20. On 18th April, 1991, Lord Scarman and representatives of the poorest families in Britain met in the House of Commons to launch a new book, with the following message: *If we want to overcome poverty in Britain, we have to involve poor people as creative partners in drawing up comprehensive policies and priorities in education, work and training, minimum income, housing, health and family life.* The poor, co-authors of the book, ask for their experiences to be taken as the starting point for anti-poverty initiatives in Britain and Europe. For BI supporters the message is clear. BI on its own is not enough: good public services are also essential.

**Europe: tackling Unemployment,** Anne Gray, Unemployment Bulletin, Issue 25, Spring 1991, Unemployment Unit & Youthaid, 409 Brixton Road, London SW9 7DQ. Anne Gray is a much valued member of BIRG's Labour Market Study Group. In this article she outlines the unemployment problems of the twelve EC member States; the large variety of training and job creation programmes provided; different approaches to job centres, availability for work testing and so forth. Comparisons with Sweden are also included.

**Newsletter of the Basic Income European Network, No. 10, Spring 1991.** Published three times a year, twelve pages of information about past and future events and publications relevant to BI. For further information contact Walter Van Trier (BIEN Secretary), Bosduifstraat 21, B-2018 Antwerp, Belgium; or David Purdy (Associate Editor), Faculty of Economics and Social Studies, University of Manchester, M13 9PL.

**The Pension Consequences of Divorce,** Heather Joshi and Hugh Davies, CEPR Discussion Paper No. 550, Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, June 1991, £3. Women's disadvantages in the labour market leave them financially vulnerable when divorced. Moreover the proportion of women aged over 60 who are divorced is expected to rise from 3% in 1985 to 13% in 2025. Divorced women seldom earn as much pension as they could have shared had they remained married or inherited as widows. Splitting of pension rights accumulated during the marriage would help, but the transfer is only substantial where there is a substantial pension to split. A better basic pension, irrespective of earnings records, would provide better security. BI is not mentioned in this report, but for its advocates the implications are clear. The existing benefit system gives women, especially divorced women, a raw deal in old age. What is needed is a much larger basic pension, indexed to earnings rather than prices, and with entitlement based on citizenship or length of residence in the UK.

**Family Budget Unit Working Papers,** The Family Budget Unit, Department of Social Policy and Social Work, University of York, Heslington, York YO1 5DD, free. In BIRG we define a Full Basic Income as 'enough to live on'. But how much is 'enough'? And how much do families of different composition need to reach living standard equivalence? In the poverty studies reviewed by the IFS (see above) the accuracy of the main conclusions depends critically on the equivalence scales used, which in fact are highly controversial. At the University of York a new enquiry is being coordinated into the needs and costs of families with and without children (see Jonathan Bradshaw in BIRG Bulletin No. 12). Twelve Working Papers are already available.

**Minimum income vs minimum pay.** Samuel Brittan in *the Financial Times*, 11 July 1991. Copies available from BIRG, please send stamped and addressed envelope. This important article by Brittan puts BI centre stage of British politics in a pre-election period. This is how it starts:

*There is an intellectually exciting alternative to Labour's reactionary, job-destroying proposals for a minimum wage. This is to leave wage determination to the market-place, but to use the tax and social security system to make some form of Basic Income (BI) payment to every person or household, irrespective of whether he or she is young or old, sick or well, at work or unemployed. For those without a job, the Basic Income would replace all forms of the dole. For those with low pay, it will act as a top-up. For the rest, the Basic Income can be netted off against the tax.*

There follows a detailed discussion of the various routes to BI, references to *Beyond the Welfare State* by Samuel Brittan and Steven Webb (see BIRG Bulletin No 12), and to BIRG's new Discussion Paper *Basic Income and the Labour Market*, followed by a firm insistence that BI should be instead of, not as well as, a minimum wage:

*The very accusation that employers would be encouraged to offer many more low-paid jobs is to my mind a ground for hope. For it would suggest that the employment-creating effect might be quite large.*

# Viewpoint

## An inner city perspective

Keith Argyle

How might Basic Income look to people working in inner city communities like Salford? And how might local people react to the idea — especially those struggling on incomes around or below the 'decency threshold'? My own inner city experiences have convinced me that the present 'work-status' benefit system is in a state of collapse. By contrast, the introduction of an individual income for all (converse of the poll tax) would lead to greater economic and social buoyancy — not only in terms of economic incentives, but in terms of more voluntary contributions to society as well.

### Poor people want to work

Perhaps it needs to be said at the outset that there is no infallible wisdom among the poor. They inherit many cultural strengths, which they value and foster, despite the apparent attempts of the powerful to destroy them. Those strengths include a sense of solidarity, community and neighbourhood. But the history of capitalism which made them 'working class' and then rejected them to become 'underclass', has left them believing in a job as the only answer — especially unemployed men. They agree with the prevalent philosophy that employment gives identity, status, a place in society — and with the state's assessment of themselves. Weekly symbols that powerfully reinforce this assessment are the current employment-based benefits.

The ideas that can be grouped under the label *Citizen's Income (CI)*<sup>1</sup> are good news for the new generation of unemployed that has swelled the ranks of the underclass. But traditions die hard in Salford, and the new ideas have not yet percolated into the consciousness of many. It is among the politically aware and the professionals that they make most sense, because they speak to their experience and convictions.

In 1942 Sir William Beveridge wrote: "The State, in organising security, should not stifle incentive, opportunity, responsibility; in establishing a national minimum it should leave room and encouragement for voluntary action to provide more than the minimum."<sup>2</sup> He saw 'security' or freedom from want as a fundamental right, not something that would normally require a means test. He built the whole of his Plan on the assumption that full employment would be possible — apparently not realising that technological change would bar that possibility. Yet from my experience at the grass roots I would say the writing has been on the wall for decades,

which is why Citizen Income ideas seem the most hopeful basis for a better world for us in the inner city.

### People need self respect

So long as the major political parties refuse to accept that benefits based on work status no longer make sense, they leave poor people locked into a 'recipient mentality'. Committed to policies that only tinker with the system, politicians are at best paternalistic, and at worst condemnatory. Means-tested benefits compel people to crawl to get grants as a concession, and compel the authorities to treat them as non-persons. To find their self-respect people need to feel they have a right to the income they receive — as with child benefit.

I have several years' experience of establishing credit unions and helping them develop. Credit unions keep people's pitiful incomes within the community, instead of allowing them to go into the pockets of loan sharks and finance companies charging high rates of interest. Money is always more expensive for people who are poor than for the credit-worthy. Credit union members have discovered a certain freedom of choice through no longer having a millstone of debt around their necks. But their experience also illustrates the need for something more fundamental — a structural change in the way people obtain the money to survive. A Basic Income would make all the difference not only to their dignity and self-respect, but also to work incentives. Abolition of the poverty trap would enable many more to achieve freedom from constant debt. Debt would cease to be an inevitable way of life.

### The Salford experience

Salford people are basically aware of a lack of sufficient guaranteed income. Over recent years — with the purse-strings pulled ever tighter — employment-based and means-tested benefits have increasingly failed to prevent poverty. For example, according to a survey carried out by the Nottingham University Benefits Research Unit<sup>3</sup>, the replacement of supplementary benefit by income support in 1988 cost the poorest people of Salford over £2.3 million. An estimated 13,802 claimants (59%) lost £3 million, while 4,717 (20%) gained £0.7 million. A further 8,100 potential claimants (including 4,800 pensioners) were not claiming the benefits to which they were entitled.

### Benefits are inadequate

How much do people on Income Support need to purchase food, fuel and clothing? Dr Stitt of Newcastle Polytechnic<sup>4</sup> has estimated that in April 1990 it would have cost a family of two adults and two primary-school children £58.03 a week to buy the food amounts and nutrients recommended in a dietary published by the London Food Commission in 1986.<sup>5</sup> But they would have received in their Income Support a weekly rate of £23.28, just 40% of the cost of a healthy diet.

Other experts are clear that they would have received less than half what they need for adequate clothing and

footwear.<sup>6</sup> Income Support allowances provided only between 18% and 30% of the amounts prescribed by the Foster Care Association to clothe children who are fostered.<sup>7</sup>

If the Energy Efficiency figures are used, a two-child, two-parent family would receive 37% to 68% of what they need for fuel.<sup>8</sup> When sundries are included the allowances supply only between 56% and 67% of the needs of the same family, depending on what kind of heating they have and whether they buy drink and tobacco<sup>9</sup> (See Table 1).

**Table 1: Low income budget standards (BS), compared with Income Support (IS). Two adults + two children under 11, April 1990**

Budget component	BS	IS	IS as % of BS
Food	£w 58.03	£w 23.2	% 40
Fuel:	gas (G)	14.27	9.75
	electricity (E)	18.95	9.75
	oil (O)	19.21	9.75
	solid fuel (SF)	26.30	9.75
Clothing		21.56	9.88
Sundries (a), incl. alcohol and tobacco	65.20	—	
Sundries (b), excl. alcohol and tobacco	40.85	—	
<b>TOTALS</b>	<b>(a)</b> G159.06	89.65	56
	E163.74	89.65	55
	0164.00	89.65	55
	SF171.09	89.65	52
<b>TOTALS</b>	<b>(b)</b> G134.71	89.65	67
	E139.39	89.65	64
	0139.65	89.65	64
	SF146.74	89.65	61

Source: *Of Little Benefit ...* Dr S. Stitt, 1991, pp 24-5 (adapted)

## Benefit cuts

During the past twenty years, and especially during the 1980s, the gap between incomes in and out of work has grown dramatically. In October 1972 flat-rate unemployment benefit plus earnings-related supplement was worth nearly half average net earnings to a single person, and over two-thirds average net earnings to a married man with two children (assuming each had previously earned the national average wage). By April 1989 earnings-related supplement had been abolished, and the standard rates of unemployment benefit were worth less than one-fifth average net earnings for single people, and only one-third average net earnings for married couples with two children — regardless of their previous earnings.<sup>10</sup>

Reports on the Social Fund show that more than half the people who applied for grants in 1989-90 were refused, and two out of five who applied for budgeting loans.<sup>11</sup> In the inner city we hear of many instances of people being turned down for loans because they are too poor

to be able to repay them; and nearly one in five because of 'insufficient priority'.

## Trapped in poverty

In poor, inner-city communities the impact of these conditions (imposed by the State) are obvious to the men, women and young people who live there. Serious money is not earned within the poverty and unemployment traps, where any wages over the thresholds laid down by departmental regulations are virtually confiscated. Serious money is found in:

\* **The black economy.** Men in particular look to the black market to drive a shrewd bargain. The poor can show as much wit, enterprise and ingenuity in making a little extra as the powerful — but with sparser and comparatively insignificant opportunities. The System has ensured that they are not tempted to save their winnings, and their culture reinforces this.

\* **Casual part-time jobs.** Women, and single parents in particular, are forced to take part-time, low-paid work. It is casual work in every sense, but especially in the attitudes of the employers to these workers, who are the first to become casualties! Moreover the official statistics may be under-estimating the extent of the problem. In a survey at our local job centre on a particular day,<sup>12</sup> there was a total of 315 jobs on the boards, of which 118 were part time (for less than 30 hours a week). Of the latter, 65 paid less than £43 a week (which was the threshold for national insurance contributions and would therefore make the earner ineligible for contributory benefits); 32 paid £43 or more a week; and 21 had no clear weekly rates. Significantly also, of the 197 full-time jobs on display, 50 paid £2 or less an hour and 82 paid between £2 and £2.50.

The hours worked were analysed as follows: 43% were for less than 16 hours, 46% were for more than 16 hours, and 18% were unclear about hours.

\* **Drugs.** Trading in drugs is the quickest way for penniless, homeless youngsters without jobs to make money. In the inner cities young people have no future to plan for, unless they can get into the armed forces and learn a trade. Many dream of making good in the pop music scene or in professional sport (football, snooker, boxing). Recently a Dutch photographer from the World Council of Churches sat in at a meeting of one of our integrated family project groups and was astounded at the plight of the youngsters in it. For them the System had so clearly failed — leaving them reduced to a hand-to-mouth survival pattern instead of being guided through suitable training to self-confidence and self-determination.

To get benefit a 16-17 year old needs to be pregnant or have a child, be long-term sick or disabled, registered blind or a 'carer' — or be in receipt of a training allowance. While waiting for a YT place or looking for a job s/he does not qualify for Income Support. There are of course exceptions made for young people with 'good reason' for living independently, but the criteria seem very strict. For example the young person has to prove that s/he is an orphan, in physical or moral danger, or a refugee learning English. In exceptional cases the decision is made at the Secretary of State's discretion. The

overall result is that most young people have been ineligible for Income Support since September 1988, and many families face burdens they are unable to bear.

## National insurance: a system of exclusion

Of its nature national (or social) insurance excludes the most defenceless: women, people with disabilities, students, young people, trainees. In order to avoid 25% income tax, plus 9% national insurance contribution, employer and employee agree to a job structure without prospects or security. Often the working conditions are sickening, which encourages the employee to abandon the job before redundancy regulations come into play.

Because of the limitations of national insurance, there is increasing dependence on occupational welfare. But lower paid jobs are seldom covered by occupational schemes. When sick, most low-paid workers have to rely on the statutory sick pay (SSP) with which Mrs Thatcher's government replaced sickness benefit in April 1983. Nor is that all. SSP is being steadily eroded. Only 80% of SSP is now repaid to employers, and over 5 million full-time workers earning less than £185 a week have been excluded from the higher rate.<sup>13</sup> *For part-timers in our inner cities there is no protection at all in time of sickness.*

## Citizen's Income: new hope for the inner cities

In the circumstances it is no wonder that the (now moribund) community charge is proving increasingly difficult to collect. Many charge-payers have chosen to disappear from the electoral register rather than pay. There is no room in their weekly budget for expenses that do not help survival. Yet poll tax served a useful purpose by changing the way people think about taxation and benefits. For the converse of the passionately held conviction that every adult should be charged tax for local services is the conviction (held with equal passion) that everyone should receive an income out of which to pay it!

Such a Citizen's Income would have to be based on legal residence. To me it also seems clearly right that it should be based on the individual. A family-based assessment unit would be unpopular and administratively unworkable. Inner city households show an infinite variety of patterns, incredibly complicated webs of relationships, and can also be unstable. A family-based assessment unit would be impossible to regulate and would require invidious probings into people's highly sensitive private affairs.

A Citizen's Income (or a Basic Income) would help do away with hated means tests and cohabitation enquiries. People want a clear and simple situation: a BI integrated with income tax through a universal tax threshold could be the answer. Women and those claiming benefits in Salford would find few problems with BI by comparison with the plethora of means-tested benefits to which they may have a right but which defeat them at present. A BI that was backed by an enhanced child benefit and lone-parent benefit would be even better. This would be the best way to improve take-up and increase people's

purchasing power and ability to cope with life. The present overlap between benefits and taxes spells wasted resources for all except those who administer them — and even they must wonder at times!

## Income security and voluntary work

A BI based on legal residence would be a radical agent for change, transforming basic social conditions, bringing self-respect, encouraging new economic incentives.

It would build on the spirit and strengths already there, as seen in the remarkable drive to do voluntary work.

In our communities there has always existed a culture of voluntarism, in which people offer services without thought of pay. I have served for some years on the management of a Council for Voluntary Service. Volunteering has traditionally been seen as a middle-class occupation: people with guaranteed incomes, through a partner or pension, wanting to be of service out of the best of motives. In our inner city work we are amazed and humbled by the wish of so many who are struggling for survival to volunteer their time and energy in worthwhile projects. They see wealth not in terms of money but friends.

Many of the volunteers in our community are trying to find ways to gain qualifications as they struggle in the teeth of poverty to bring up children single-handed. Even a partial BI would make all the difference.

Women in Salford show more confidence than men in doing voluntary work and in helping to develop community life. But in poor areas their involvement is often short-term, for two kinds of reasons. First because life is fragile and so many things can go wrong — their own health or the health of their children, housing conditions, theft and vandalism. These women face unremitting stress in many guises, induced by the endless nagging of having insufficient income to live on decently. Second, because the daily search for money is frantic, and openings to earn are casual and sudden, so that older and younger people alike will disappear from voluntary work without warning. The formula you often hear is that ‘something has come up’. A Basic Income would help combat this constant stress.

## A new ethic

No one assumes that BI could be brought in overnight or provide immediate answers. It would have to be introduced in stages, and be paid for out of increased wealth generation. The important thing is to use some at least of each year's wealth generation to combat poverty and rebuild communities.

BI would help create this wealth by providing incentives to work in the legitimate economy where there are none now. Others would be encouraged to respond to obligations they feel. What motivates people to serve others without thought of pay? Is it not fundamentally natural for human beings to feel obligations towards those with whom their lot is cast? Can we not assume we have a

basic need to give as well as to receive? Is it not right and good for members of a society to contribute to the 'common wealth' by relating purposefully with other people or 'adding value' to physical materials? We all have a need to make an impact on the world, relate meaningfully with the groups to which we belong, and feel we are valued for the contributions we make. The mark of genuinely free people is that they are in a financial position to sell not time, but a product or a service. They have the right not to be forced to work in dirty, dangerous and degrading jobs. And they have room to consider that the moral aspect of what they are doing is as important as the economic one!

If we were to receive enough to live simply (i.e. to meet the basic needs of food, warmth and security) then we would be freer to do what seems most valuable according to our own deepest motives. Those who now feel excluded from society could develop social concerns and a sense of responsibility. Voluntary service could have a valued social niche and flourish even in neighbourhoods which have been traditionally poor.

Above all, men (and increasingly women) could get away from the fixation that paid work is the only possible way of associating with others for worthwhile purposes. They would learn to come together in community for other meaningful activities, which would be designed to meet long neglected needs in themselves and others. Thus a new ethic would replace the old work ethic.

Punitively low benefit rates have manifestly not produced incentives to work — the poverty trap has scotched that idea. The abolition of both might create the effect that has so far eluded administrators. BI is not designed to bring equality. But it could remove poverty while still encouraging individual initiative, because it would relieve people in our poor areas from their permanent anxiety and daily preoccupation with how to survive. Far from reinforcing a 'recipient mentality' even a partial BI would produce a radical shift to a new buoyancy in society and in the economy.

*Keith Argyle, a Baptist Minister, is married with two children. He was the first member of staff appointed to*

*Salford Urban Mission in 1983. The Mission works in inner Salford on behalf of the main Christian denominations, through community work methods. Before that he was an industrial chaplain on Teesside. He is a member of Kevin Donnelly's BIRG North-West group.*

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## References

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# Letters

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

## From George Chowdhary-Best

I was interested to read your article *Terminology* in Bulletin No. 12, but some of the points you make remain opaque and others a bit off-putting.

On page 6, for instance, you refer to the Puritan work ethic. This is sometimes also called the Protestant work ethic, and epitomises the Calvinistic view that to be successful through hard work is a person's duty and responsibility. Yet a work ethic of some kind is not unique to Christianity nor even to Islam. Moreover to denounce it as you sometimes appear to do is counter-productive (in my view).

To exclude people from BI because they are able-bodied, male and nonetheless refuse to work is perhaps a contradiction, yet it was envisaged by my mother-in-law (Juliet Rhys Williams), who was one of the pioneers of the scheme. To many people the young able-bodied male who does nothing to occupy his time usefully is an affront. Nor does the Protestant/Puritan work ethic refer solely to paid work. On the contrary, like similar ethics in other religions, it refers to work of all kinds. It simply reflects the ineluctable truth that we all have to do some kind of work (as housewife, computer operator or whatever), otherwise we all, in the last resort, starve. Whether the work is paid or unpaid is in this sense irrelevant: it simply has to be done.

You also say that unpaid work is "disregarded, and therefore downgraded" in the Bismarckian/Beveridge systems. But surely all that means is that it is not paid? Voluntary work in such societies is often highly regarded and leads to honours and social advancement.

In the final para on page 6 you say: "divide each citizen's BI by the rate of income tax and multiply by 100, and you come up with the income break-even levels". What exactly does this mean?

In the penultimate para of page 7, I'm not sure I follow the argument that the price-indexing of the Old Age Pension is insufficient and will lead to the pension becoming as worthless as the former death grant. So far as I am aware, the death grant was not increased in line with prices.

Yours sincerely,

George Chowdhary-Best,  
27 Walpole Street,  
London SW3 4QS

## The Editor replies:

The implications of BI for the work ethic are indeed a central issue. Some argue that an unconditional BI would encourage idleness, whilst others believe it would lead to a more equitable distribution of paid and unpaid work — and hence to a more equitable distribution of incomes between men and women during old age.

Under existing social insurance systems, retirement income depends on previous labour-market participation and earnings. In all the social democracies, poverty in old age is predominantly female, reflecting women's lower levels of labour-market participation and earnings. In the UK an estimated one-third of women reach retirement age without a full basic pension, compared with only 7% of men. Yet who is to say that the contribution of women to society is less important than that of men? A social security system that puts no value on work outside the labour market sends messages to men and women alike to 'get on their bikes'. Honours and social advancement are no substitute for income in old age.

Certainly it is true that Juliet Rhys Williams included a work test in *Something To Look Forward To*, but she never called her main proposal Basic Income. Reading the sections on implementation, I feel that the instant appeal of her main proposal falls apart. Rightly she draws attention to the administrative implications of a work test (for instance should out-of-work family men be required to take jobs away from home?). Would it be enforceable? I think not. According to my information, which comes from the late Sir Brandon Rhys Williams MP, his mother included a work test in order to forestall criticism that her proposal would encourage idleness. She realised its drawbacks and did not refer to it in subsequent writings.

To find the income break-even levels at which people become net taxpayers (i.e. the income levels above which tax paid exceeds BI received), the calculation is as follows:

$$\frac{\text{Basic Income} \times 100}{\text{Rate of income tax}} = \text{income break-even level}$$

For example, assuming a BI of £30 and an income tax rate of 35%, the break-even level becomes £85.70:

$$\begin{array}{r} 30 \times 100 = \$85.71 \\ \hline 35 \end{array}$$

Regarding indexation of the UK Old Age Pension, price indexation is certainly better than no indexation. Nevertheless, if the standard rate of retirement pension had been uprated in line with prices only since 1948 (instead of a mixture of prices and earnings) it would now stand at £21.50 a week (Category A) instead of £52.

# BIRG Bulletin Back Numbers

The first two editions of the BIRG Bulletin were in tabloid form. The following, in the current A4 style, are available from BIRG, 102 Pepys Road, London SE14 5SG. In addition to the main articles, there are details of relevant events at home and abroad, book lists, and book reviews.

## Bulletin No 3, Spring 1985:

- *VIEWPOINT: A new deal for all*, Keith Roberts
- *Costing Basic Incomes*, Hermione Parker
- *Going, going ... gone: the vanishing right of young people to supplementary benefit*, Douglas Smith

## Bulletin No 4, Autumn 1985:

- *Out of touch: The Fowler reforms of social security*, Robert Morley
- *The debate about costings*, Hermione Parker
- *Basic Income and young people*, BIRG Youth Group
- *Exploitation and Basic Incomes*, Bill Jordan
- *VIEWPOINT: A two-tier Basic Income and a national minimum wage*, Robin Smail

## Bulletin No 5, Spring 1986:

- *Social security, taxation and family financial arrangements*, Jan Pahl
- *Basic Incomes, some practical considerations*, Philip Vince
- *Public support for families with children: a study in British politics*, Sir John Walley
- *Fowler's reform of social security: facts and figures*, Hermione Parker
- *Cash and caring*, R.A.B. Leaper
- *VIEWPOINT: Realistic radicalism*, Malcolm Torry

## Bulletin No 6, Autumn 1986

(photocopies only available):

- *A Basic Income for youth*, Paul Lewis
- *Basic Incomes and elderly people*, BIRG Elderly Group
- *Safeguarding social security in the Netherlands*, Jos Dekkers
- *Poverty and Adequacy*, Anne Miller
- *Letter from Andrew Brown*
- *The case for a guaranteed income in France*, Bruno Couder
- *Childminding costs*, Sue Owen
- *Journey-to-work costs*, Martin J.H. Mogridge
- *VIEWPOINT: Service credits: a new currency*, Edgar Cahn

## Bulletin No 7, Spring 1988

- *What are Basic Incomes?* Bill Jordan
- *Are Basic Incomes feasible?* Hermione Parker
- *Alternatives to Basic Income*, Fran Bennett
- *The implications of BI for people with disabilities*, BIRG Disability Working Group
- *Removal of private pension tax reliefs: viewpoint from an actuary*, Geraldine Kaye

- *Mutual responsibility*, Malcolm Torry
- *VIEWPOINT: Towards an income and work guarantee*, Peter Ashby

## Bulletin No 8, Autumn 1988

- *Defining Basic Income*, Tony Walter
- *Administration of integrated tax/benefit systems*, Herminone Parker and Andrew Dilnot
- *Towards a BI democracy*, David Purdy
- *Analysis of a partial Basic Income*, Tony Atkinson and Holly Sutherland
- *A European guaranteed Basic Income System?* Nel van Dijk
- *VIEWPOINT: If any would not work, neither should he eat*, James Robertson

## Bulletin No 9, Spring/Summer 1989

- *Existence income and activity income*, Henri Guitton
- *Can it happen?* Susan Raven talks to Frank Field MP, Archy Kirkwood MP and the Rt Hon David Howell MP
- *Denmark's Basic Pension*, Adam Trier
- *Basic Income in Ireland; the debate so far*, Rosheen Callender
- *Proposals for a Basic Income in the Republic of Ireland*, Chris O'Malley MEP
- *VIEWPOINT: A place at the board*, Kevin Donnelly

## Bulletin No 10, Autumn/Winter 1989

- *Topsy-turvy nationalisation*, James Meade
- *Breaking the poverty trap: a Basic Income*, Paddy Ashdown MP
- *Proposals for a guaranteed minimum income in Italy*, Maria Luisa Mirabile
- *Citizenship, Basic Income and democracy*, David Purdy
- *Disability: the independent living fund*, Pauline Thompson
- *Pensions, taxes and welfare*, T.A. Salter
- *VIEWPOINT: Basic Income: value or price?* Conall Boyle

## Bulletin No 11, July 1990

- *The Third Age*, Charles Handy
- *The Poverty Trap: poor people's accounts*, Bill Jordan with Simon James
- *Basic Income: alternative benefit or new paradigm*, Joop Roebroek and Eric Hoogenboom
- *Can it happen?* Susan Raven talks to Sally Greengross and Sue Slipman
- *Getting paid for doing nothing: plain justice or ignominy?* Philippe Van Parijs
- *Citizen's Income*, Philip Vince
- *VIEWPOINT: Basic Income and industrial development*, Victor Oubridge

## Bulletin No 12, February 1991

- *The Alaska Permanent Fund and dividend distribution programme*, J. Patrick O'Brien and Dennis O. Olsen
- *Terminology*, Hermione Parker
- *Basic Income as a lever for economic efficiency*, Ken Mayhew
- *How much is enough?* Jonathan Bradshaw
- *Towards a full BI*, Greetje Lubbi
- *Can a BI-type scheme be made affordable?* Steven Webb
- *Australia: arguments for Basic Income in a poor-law welfare state*, Peter Travers
- *VIEWPOINT: The rights of children — a justification of Basic Income, hitherto unremarked*, Maire Mullaney

## **BIRG forthcoming events 1991**

### **BIRG NORTH-WEST**

Saturday 26th October, 9.30am — 12.30pm, workshop at Wythenshawe Friends' Meeting House in Manchester. Programme will include David Purdy on the political feasibility of BI; Conall Boyle on jobs; and Greg Forster on BI and Christianity.

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