Citizen's Income *newsletter*

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Editorial

The Government is planning to localise Council Tax Benefit. Local authorities, which currently administer a national scheme, will be asked to invent their own schemes. At the same time, the amount of money available will be reduced, and local authorities' ability to decide how to distribute the benefit between different demographic groups will be constrained.

It is certainly the case that some functions belong with local government and some with central government, and that a variety of factors will be involved in deciding in each case whether regulations should be local, national, or a mixture of the two. For instance, defence of the realm has to be a central government function, and it is surely sensible for litter collection to be undertaken by local authorities. In the middle ground will be such functions as health and education which for good reasons are managed by a partnership between local and central government.

The question to ask in relation to the Council Tax Benefit plan is this: Does the proposed localisation make it easier or more difficult for the Government to manage its remaining central government functions?

We have already expressed our view that Universal Credit is a step in the right direction because it rationalises means-tested benefits to some extent, and it reduces the total marginal deduction rate experienced by people in employment or entering employment, thus providing slightly greater employment incentives than under the current system.

A localised Council Tax Benefit will make the administration of Universal Credit far more difficult than it would have been otherwise, because claims in each local authority area will need to be calculated differently. Universal Credit administration already faces one major new challenge: synchronisation of computer systems at Her Majesty's Revenue and Customs and the Department for Work and Pensions. To add another major challenge might cause administrative gridlock.

Additionally, each local authority will determine its own withdrawal rates for Council Tax Benefits, and will withdraw Council Tax Benefit at that rate at the same time as Universal Credit is withdrawn by the DWP. This will destroy Iain Duncan Smith's plan for a maximum national withdrawal rate in order to increase incentives to seek employment and to increase earned income once in employment.

As a recent report from the Institute for Fiscal Studies puts it: 'Achieving coherence between council tax rebates and Universal Credit is complex. The need to make the new rebates fit with Universal Credit makes local authorities' task of designing schemes, already a difficult challenge given the tight timescale, into a truly formidable one.' [1] This is a report that every Minister and MP should read.

It is rare for us to suggest that the Government should think again. In this case we have no hesitancy in doing so; and no hesitancy in suggesting that if it does not do so then Parliament should ensure that it does.

[1] Stuart Adam and James Browne, *Reforming Council Tax Benefit* (Institute for Fiscal Studies, 2012), p.10. www.ifs.org.uk/comms/comm123.pdf

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Research note: A Citizen's Income scheme's winners and losers

In our last edition we published a research note which employed EUROMOD [1] to calculate the gains and losses which a full range of individuals would experience if Working Tax Credits and Child Tax Credits were to be replaced with nonwithdrawable benefits. Tax Credits are only paid to people in employment, so the nonwithdrawable benefits would only have been paid to people in employment.

Here we use EUROMOD to simulate the outcomes for a genuine Citizen's Income scheme: an unconditional and nonwithdrawable benefit for every citizen. The aim of the exercise was to test a variety of schemes for feasibility defined as follows:

The net cost of the scheme (that is, the cost of the Citizen's Incomes, less additional Income Tax and National Insurance Contribution revenue and the money saved through the abolition of existing benefits), should be affordable. We assume that a net cost above £3bn per annum would be unaffordable in the current circumstances.

No more than 5% of individuals should suffer a loss of disposable income of more than 15%, and no more than 10% of individuals should suffer a loss of disposable income of more than 10%.

The following scheme was found to fit this definition of feasibility:

Citizen's Incomes are paid as follows to each individual:

Citizen's Income	**Age range**	**Amount pw**
Child Citizen's Income	Under 18	£40
Citizen's Income	Over 18 and under state retirement age (60 for women, 65 for men) [2]	£40
Citizen's Pension	Over state retirement age [2]	£100

In order to pay for the Citizen's Income:

Income Tax is to be collected on all earned income above a Personal Tax Allowance of £4,000 pa as follows:

From £4,001 to £20,000 pa, 25%

From £20,001 to £40,000 pa, 35%

Above £40,000 pa, 45%

We have retained the Lower Earnings Limit for National Insurance Contributions, but abolished the Upper Earnings Limit. We have abolished Working Tax Credits, Child Tax Credits, Basic State Pension, contributory Jobseeker's Allowance (but not the means-tested variety), and Child Benefit (which has been absorbed into the new Child Citizen's Income). All other benefits and taxes have been left as they are. [3]

The results are as follows:

	Results for individuals		**Results for households**	
Losses and gains	**No.**	**%**	**No.**	**%**
Loss > 15%	2,392	4.18	1,882	7.50
15% > loss > 10%	2,302	4.02	679	2.71
10% > loss > 5%	6,160	10.75	1,914	7.63
5% > loss > 0	5,532	9.66	4,346	17.32
No loss or gain	19,747	34.48 [4]	1,067	4.25
0 > gain > 5%	7,350	12.83	6,736	26.85
5% > gain > 10%	3,647	6.37	3,582	14.28
10% > gain > 15%	2,358	4.11	1,935	7.71
Gain > 15%	7,788	13.60	2,947	11.75
Totals	57,276 [5]	100	25,088	100

For the purpose of this exercise, no attempt has been made to abolish or change current means-tested benefits except for Working Tax Credits and Child Tax Credits. Because Citizen's Incomes and Citizen's Pensions will be in payment, an additional number of individuals should find their non-means-tested incomes to be sufficiently high to take them above the means-tested benefits levels. The number of claimants should therefore be reduced, and the amounts of means-tested benefits in payment should also be reduced.

The EUROMOD simulation, running with 2008 Family Resources Survey data and 2009 benefits regulations, shows that 11.95m adults would have been in receipt of means-tested benefits, whereas for the same data and our Citizen's Income scheme there would only have been 7.65m in receipt. In 2009, the total means-tested benefits claimed (including Working Tax Credits, Child Tax Credits, Housing Benefit, and Council Tax Benefit) would have been £57.7bn, whereas for the Citizen's Income scheme the total means-tested benefits claimed would have been only £26.9bn (much of which would have been Housing Benefit and Council Tax Benefit). We can therefore see that such a Citizen's Income scheme would have reduced by more than four million the number of people suffering the disincentive effects imposed by means-tested benefits. Somewhat less calculable, but perhaps more significant, would be the number of people still in receipt of means-tested benefits who would seek additional sources of earned income in order to lift their net incomes above the level at which they would need to claim means-tested benefits. Anyone raising their earned income in the context of Working Tax Credits knows that their Working Tax Credits will be reduced and they will receive little benefit from their additional effort or additional skills. In the context of a Citizen's Income there is no such reduction, making it rather more likely that amongst those still in receipt of means-tested benefits numerous individuals and households will do all they can to lift their incomes high enough to escape the traps that accompany means-testing.

The Gini coefficient is a measure of inequality. The Gini coefficient for disposable income in relation to the 2009 benefits regulations would have been 0.3403, whereas that for the Citizen's Income scheme would have been 0.3304. Whilst this is not a major change, it shows that a feasible Citizen's Income scheme might somewhat reduce inequality in disposable incomes. The considerably reduced marginal deduction rates that would be experienced automatically by four million people, and in practice by others who would choose to remove themselves from means-tested benefits, would promote increased disposable incomes in the lower earnings deciles and would thus reduce income inequality even further.

The additional cost of the Citizen's Income scheme would have been £2.85bn, which is within the £3bn that we allowed ourselves.

This is clearly not the end of the discussion. At 4.18% the number of individuals facing a loss in disposable income of more than 15% is too high; and at 8.2% the number facing a loss of more than 10% is also too high. Some of these losses will be amongst higher earners, and some will be because a couple will now be receiving twice as much as a single person, meaning losses for single people and gains for couples.

There are three possible responses to this: 1. In the longer term, the lower marginal deduction rates that all workers will experience will mean that it will be easier than before to fill any gap in disposable income by increasing earned income. In the shorter term: 2. It should be possible to reduce these figures by adjusting Income Tax rates and the levels at which the different Citizen's Incomes are paid. This would be at the cost of reducing the numbers of individuals seeing immediate gains in their disposable incomes. This would not be a problem. The aim of this Citizen's Income scheme is not to increase the immediate gains experienced by a large proportion of the population. The aim is to reduce the marginal deduction rates suffered by individuals and households, and to do it in an affordable manner. 3. As Philippe Van Parijs suggests, such losses 'do not mean that a [Citizen's Income] is unaffordable, but that a gradual approach is required if sudden sharp falls in the disposable incomes of some households are to be avoided'. [6]

The results of this exercise suggest that by making a small number of changes to the present system it is perfectly possible to establish a genuine Citizen's Income scheme. What is now required is a more substantial research effort to seek a Citizen's Income scheme similar to the one outlined above but with fewer people losing more than 15% of their disposable incomes; and, just as importantly, to seek the simple transitional steps that would be required in order to get there.

Acknowledgements: We are most grateful to the Institute for Social and Economic Research at the University of Essex for the use of EUROMOD, to Professor Holly Sutherland and her colleagues for advice and tuition in the use of EUROMOD, to the European Commission for funding the development of EUROMOD, and to the UK Data Archive for the use of Family Resources Survey data

Notes

1 EUROMOD was developed from the previous POLIMOD by the Institute for Social and Economic Research at the University of Essex. It employs Family Resources Survey data to calculate the actual difference in disposable income experienced by individuals when a change is made to the tax and benefits system.

2 Because EUROMOD employs 2008 Family Resources Survey data in relation to 2009 tax and benefits regulations and levels, the state retirement age employed for this exercise is the state retirement age as it was in 2009.

3 For individuals and households claiming means-tested benefits, Citizen's Incomes are counted as income received for the purpose of calculating the level of benefit. So, for instance, instead of Housing Benefit being withdrawn at 65% of the value of Working Tax Credits, in this scheme Housing Benefit is withdrawn at 65% of the value of Citizen's Incomes received by the household.

4 Most of those individuals for whom no change occurs will be children. Their Child Benefit is ascribed to the main carer, and the Children' Citizen's Income would be similarly ascribed.

5 The survey covers approximately 0.1% of the total population of the UK.

6 Philippe Van Parijs, 'A Basic Income for All', pp. 3-26 in Joshua Cohen and Joel Rogers, *What's Wrong with a Free Lunch?* Beacon Press, Boston, 2001, p.23

News

The World Bank has published a report, *The Cash Dividend: The rise of cash transfer programs in Sub-Saharan Africa*, by Marito Garcia and Charity M. T. Moore. The authors conclude: 'Much can already be learned from Sub-Saharan Africa's experience with cash transfer programs. Evaluations of unconditional programs have found significant impacts on household food consumption (for instance, Miller, Tsoka, and Mchinji Evaluation Team 2007 for Malawi's Social Cash Transfer Program; Soares and Teixeira 2010 for Mozambique's Food Subsidy Program); nonfood consumption (for instance, RHVP 2009 for Zambia's Social Cash Transfer); and children's nutrition and education (including Agüero, Carter, and Woolard 2007 and Williams 2007 for South Africa's Child Support Grant). A recent experimental evaluation found that a program for adolescent girls conditioned on their school attendance improved enrollment, attendance, and test scores in Malawi. Unconditional transfers in the same program decreased early marriage and pregnancy among girls who had already dropped out of school.' (p.8). http://bit.ly/ct4SSA

The **Institute for Fiscal Studies** has published a report, *Reforming Council Tax Benefit*, which reviews the Government's plan to localise Council Tax Benefit: 'Universal Credit is intended to simplify the benefit system by reducing the number of different benefits that claimants and administrators must contend with. Keeping council tax support (the means-tested benefit with the largest number of recipients) separate – and indeed allowing it to vary across the country – severely undermines this simplification. Universal Credit is also intended to rationalise work incentives by replacing a jumble of overlapping means tests with a single one, ensuring that overall effective tax rates cannot rise too high. Again, separate means tests for council tax support could undermine this, with the potential to reintroduce some of the extremely weak work incentives that Universal Credit was supposed to eliminate. It is difficult to think of reasons why the government's original plan to integrate CTB into Universal Credit was inferior to what is now being proposed' (pp.8-9). 'Achieving coherence between council tax rebates and Universal Credit is complex. The need to make the new rebates fit with Universal Credit makes local authorities' task of designing schemes, already a difficult challenge given the tight timescale, into a truly formidable one. There is nothing in the Universal Credit system that will make it straightforward to identify those who should be passported onto a full council tax rebate. That could make running a council tax rebate scheme based closely on the current system extremely challenging for local authorities … the advantages of localisation seem to be strongly outweighed by the disadvantages, particularly in the context of the welcome introduction of Universal Credit'. (p.107)
www.ifs.org.uk/publications/6183

The **Joseph Rowntree Foundation** has published a new report, *Does the tax and benefit system create a 'couple penalty'?* 'The use of the MIS [Minimum Income Standard] scale, which uses research into minimum living costs to show greater economies of living in a couple than the official equivalence scales, suggests that separation penalties are larger and couple penalties smaller than those scales would suggest. Indeed, it shows no case of significant couple penalty other than in the scenario where the absent parent is able to live cheaply in social housing. Moreover, even the official scale used by the Government (the OECD scale) does not show a clear-cut economic advantage for families on low earnings to split up. In the single earner cases shown here, it shows a couple penalty in one scenario, a separation penalty in three scenarios and no difference in the other three. On the other hand, for a couple with two earners, it shows a substantial couple penalty in all but one of the five scenarios looked at here. So an in-work couple penalty can be identified for a particular group of couples on a particular set of assumptions.' (p.29). www.jrf.org.uk/publications/tax-and-benefit-couple-penalty

On the 30th May 2012 the General Conference of the **International Labour Organization** reaffirmed that the right to social security is a human right and recommended that member countries should 'establish and maintain … social protection floors … Schemes providing such benefits may include universal benefit schemes, social insurance schemes, social assistance schemes, negative income tax schemes, … .' www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_183326.pdf

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Letter

Dear Editor

It is always interesting to read detailed arguments for a Citizen's Income, but might I invite your readers to consider a broader reform programme which would entail a long-term foundation for the Citizen's Income we all want to see? A reform programme which would reconcile socialism and capitalism? Of course a claim such as this cannot be fully argued in the space of a letter, but the principles can be simply stated.

The most important element in a new framework for the economy would be the evaluation of the social costs and benefits of each kind of enterprise and, through a system of levies and grants, their introduction into market prices. Other demands on industry and commerce, most notably taxation of profits, would cease. Taxation would be confined to individual participants in the economy, but in their capacity as citizens or residents paying for the benefits society brings them. The Citizen's Income should not be paid for out of a levy on economic enterprise.

Society, for its part, should recognise its capital value as an instrument which makes enterprise possible. And it should translate this value into a practical tool by the creation of a sovereign wealth fund which would invest in stocks and shares at home and abroad in parallel with other funds. Income from the fund would be dedicated to the citizens, thus providing a funding base for a true citizen's income, though the fund could also be used for collective initiatives. The model would be Alaska's Permanent Fund. I leave on one side the priority support needed by those who cannot be expected to support themselves in the economy, that is: children, who are too young to work; the very elderly, who are past working; and people who suffer chronic sickness or disability.

The size of the fund ultimately required to make it worthwhile should not be underestimated. As to practicalities, nations such as China already have sovereign wealth funds. The way forward will become clearer once the principles and implications are widely understood. Even if one doesn't want to go the whole way in redesigning the framework of the economy, the creation of a sovereign wealth fund surely provides a way forward by translating the value of society into a practical reality for the benefit of all its members without imposing a levy on the economy. At the same time, the fund would help to reduce the serious inequality in the ownership of our capital.

Yours sincerely R A Pengelly

Review essay

Funding Citizen's Income from Money Creation: The message of James Robertson's *Future Money*

By Conall Boyle

The 'sensible' view of Citizen's Income (CI) is that it would pool income tax allowances and welfare benefits, as far as possible, into a single uniform payment, varying only with age, paid to every citizen, without conditions, funded in the main by income tax. This model has been studied extensively, and can be discussed with policy makers and advisors who understand the mechanisms and procedures involved. But politically this is a complete non-starter: In his latest book *Future Money,* [1] James Robertson comments 'The conventional assumption has been that there is no way of funding a Citizen's Income except by taxing people's other incomes highly, and it might

[1] *Future Money: Breakdown or Breakthrough* Green Books, Totnes, Devon 2012

have to be at a rate as high as 70%. For many years that has been seen as ruling out a Citizen's Income. Like many objections to otherwise desirable proposals, the assumption is due to inability or unwillingness to think outside a narrow box." (p135). But over the years I have encountered another radically different view about the funding of Basic/Citizen's Income. There is, it is claimed, a huge pool of money which has been hi-jacked by the banks: they have used their power to create nearly all the money in circulation and have thereby greatly enriched themselves. Most people are under the delusion that it is governments not banks that create new money, but in fact only 3% of all the money (M4) in circulation is official Bank of England notes or coins. The remaining 97% has been created within the banking system and it is the banks that reap the benefit. The 'mavericks' at BIRG (Basic Income Research Group) and Citizen's Income Trust meetings who have pointed this out have always argued that the benefit from creating new money rightfully belongs to the people, and that it could/should be used to provide a Basic Income. In addition, Robertson reminds us that there is also a vast amount of 'economic rent' which flows from the ownership of natural assets like land and airspace. This should be charged for, and, together with the proceeds from the creation of money, would provide more than enough to pay for an adequate Citizen's Income.

This 'free lunch' basis for CI might in the past have been dismissed as either Mad or Bad. It did not help that advocates of money reform who spoke at meetings of BIRG did not always put forward their ideas with much tact either! I say that the idea that BI/CI could be funded from money creation might be seen as madness, because no mainstream, conventional economist could be found who would subscribe to it. This remains the case, even today, after the Banking Crash of 2008.

But an even more telling criticism is that the holders of this alternative view are Bad people. In a vitriolic attack, Derek Wall, who was once the co-leader of the UK Green Party, lays into 'Social Credit' [2]. It was Major Douglas who inspired the Social Credit movement in the 1930s, which could be described as an earlier manifestation of Basic Income funded from money creation. In the hands of others, Wall claims, this degenerated into an evil anti-Jewish-banking sentiment. Even today's advocates, he claims, are similarly tainted. It is noticeable that the Green Party does not support money-reform, and the New Economics Foundation are somewhat ambivalent about it as well, perhaps as a reaction to this whiff of 'dangerous madness'.

Is it any wonder then that Basic Income funded by the common-wealth of money creation and resource-charges is seen as too hot to handle, too dangerous to be involved with, the deranged delusions from a lunatic fringe or worse? It comes as a shock therefore to find that James Robertson, the utterly reasonable and tireless campaigner for fresh thinking about society and the environment, is entirely in favour of monetary reform and land- and resource-based taxation. Using the proceeds of these two revenue streams would, he tells us, be more than sufficient to fund Citizen's Income and more besides.

In this, Robertson's latest book, he follows up on earlier inspiring works such as *The Sane Alternative* (1983), *Future Work* (1985), *Future Wealth* (1990). Robertson ran Turning Point conferences (which was where in the early 1980's I first encountered Basic Income). He was a founder of TOES, the 'anti'-G8 economic summit forum, and of course he is a leading light at NEF (New Economics Foundation). Later his output has explored the transformation of tax away from penalising earned incomes towards resource-based taxes, especially land-value taxes. *Sharing Our Common Heritage: Resource Taxes and Green Dividends* (1998) explains how it could be done.

Then, hesitantly at first (as I read it) but later as in this book currently under review, Robertson has experienced an epiphany. It was indeed true that the money-system had been hi-jacked by the banks, and that huge wealth was being diverted to the top 1% thereby; that the control over the issue of new money should be returned to a public authority and used for the public good. Together with Joseph Huber, Robertson became converted to the idea that our money system should be prised away from the clutches of the bankers in *Creating New Money: A Monetary Reform for the Information Age*. This appeared in 2000, long before the 2008 financial crash. Since then Robertson has continued with the monetary reform theme, something which became much more pressing following the banking crash when vast sums were created to rescue the financial system (so-called quantitative easing). So *Future Money* is a synthesis which knits together his earlier ideas, with the all-important reclamation of the money system. The aim,

[2] Derek Wall (2003) Social Credit: The Ecosocialism of Fools in *Capitalism Nature Socialism, September 2003*

as always with Robertson's books is to show how a credible "sane" alternative could give everyone a better life, while at the same time creating an ecologically sustainable world.

Robertson has a wealth of experience in the ways of government and governing, including spells at the UK Treasury and commercial banks, but his background is in Arts, not economics. 'In retrospect, I am glad not to have had a formal education in economics and money and to have learned about them in practice later within a wider context of ideas.' (p13)

Since Robertson has long been a supporter of the idea of CI, it comes as no surprise when he says that these revenues should be used to fund a 'Citizen's Income payable to all citizens as a right. [..] It will recognise that responsible citizens in a democratic society have a right to share a significant part of the public revenue from the value of common resources. It will enable people to become less dependent for welfare and work on big government, big business, big finance and foreign trade. Because all of those incur environmentally wasteful overhead costs, it will also have a conserving effect.' (p130)

There are a small number of 'heterodox' economists who would agree with Robertson that the proceeds of money creation exist and that they have been captured by the private banking system, but that they could be re-directed for the benefit of the citizenry. Perhaps the most high-profile (although not referred to by Robertson) is Steve Keen. His book *Debunking Economics* (2011, 2nd ed, Zed Books) is about the whole range of failures of the dominant neo-classical economics paradigm, especially its inability to recognise and incorporate money into its models. Few establishment figures will engage with Keen, and even open-minded economists like Paul Krugman still do not agree that money is 'endogenous'[3]. However, compelling evidence that the banking system benefits from a huge public subsidy can be found in a recent Bank of England paper[4] where the 'free lunch' for the banking system is estimated to be of the order of £120 bn. p.a., enough to fund a £40 per week Citizen's Income for every man, woman and child in the U.K.

[3] see Paul Krugman's blog article deriding 'endogenous money': 2 Apr 2012 http://krugman.blogs.nytimes.com/2012/04/02/oh-my-steve-keen-edition/

[4] Noss, Joseph & Sowerbutts, Rhianon (May 2012) *The Implicit Subsidy of Banks: Financial Stability Paper No 15* Bank of England.

I would encourage readers of *The Citizen's Income Newsletter* to study this book closely. There is much more detail about the environmental and humanitarian reasons for reforming the way currency is produced and how resources should be taxed. You will have to decide for yourself if you think the Government reclaiming control over the benefit from money creation of money is a realistic method of funding CI, or is crazy dangerous nonsense. The safe alternative is to continue studying the present job-system and see how an added-on CI funded by punitive rates of income tax might work, however futile and politically infeasible that might be.

Reviews

Marion Ellison (ed.), *Reinventing Social Solidarity across Europe*, Policy Press, 2011, xv + 270 pp, hbk, 1 847 42727 4, £70

Social solidarity is 'a contested, fluid, multilevel and multifaceted concept within the European polity, civil society and the public realm.' This volume treats this solidarity as 'a lived experience, a shared learning experience and a normative construct,' (p.11) at the heart of which is a conflict between the EU's Stability and Growth Pact, with predictable inequalities resulting from competitive labour markets, and a European Social Model predicated on human rights and social protections from the inequalities generated by both a globalizing economy and such policies as the Stability and Growth Pact. In the context of today's austerity measures, the book seeks both an understanding of social solidarity in Europe and new means to create an enhanced social solidarity, nationally, within Europe, and globally. So *is* globalization a problem to solidarity? No. There has been no 'race to the bottom' amongst European welfare states, and people still find their solidarities in their families and communities. And yes, in the sense that national institutional solidarities now need to be supplemented by transnational ones, such as those generated by the EU.

Different chapters study what solidarity might mean in terms of social policy related to children, social movements (such as trade unionism), energy policy, immigration integration policy, and a European politics in which policy instruments might reduce rather than enhance social solidarity simply because the political process will always prioritise certain interests over others. The chapter which describes this last process is appropriately followed by one which shows that in post-communist European states the establishment of market economies has caused governments to discard such solidarities as predictable local labour markets.

A particularly interesting set of empirical results is represented by a table on p.219 which shows how people in different European countries differ in their attitude to government intervention to redistribute resources (- the UK is midrange), but also that those differences are small compared to average EU acceptance of government intervention. The author of this chapter, Béla Janky, concludes that 'Eurosceptic claims about the lack of any common ground for a Europe-wide social policy framework are unfounded' (p.223).

The editor concludes that, whilst there are pressures towards increasing individualization and fragmentation, there are policy areas in which European social solidarity is more of a reality than it was (for instance, in energy policy), and it doesn't seem unrealistic when he calls for a reinvention of social solidarity on a variety of levels.

Whilst books such as this can sometimes suffer from a sense of fragmentation born of the fact that each contributor has written about the subjects in which they personally are interested, the overall impression of this volume is that there is something called social solidarity and that in terms of its future there is everything to play for. Social solidarity at every level faces challenges, but there are also signs of increasing solidarity in particular policy areas, and that a broader social solidarity is perfectly possible.

Neil Fraser, Rodolfo Gutiérrez and Ramón Peña-Casas, *Working Poverty in Europe: A Comparative Approach*, Palgrave Macmillan, 2011, xx + 342 pp, hbk, 0 230 29010 5, £60

This data-packed book is one of a series of publications to emerge from the EU-funded Programme on Reconciling Work and Welfare in Europe (RECWOWE). The programme's context is the tensions between work and welfare –

> the tension between employer demands for more labour market flexibility and citizens' need for economic security; the tensions between the increased participation in paid work and the importance of family life, the greater fluidity in family relationships, and the greater flexibility in the labour markets; the friction between quantity and quality of the jobs to be created, between job creation and maintaining or improving the quality of employment and finally the conflicts raised by the need to adapt (industrial) social protection systems to new labour market structures (p.xviii)

and the programme's task is to understand the relationship between work and welfare in the many different national contexts across Europe. This book's task is to understand in-work poverty, and in particular the institutional and policy factors which affect it. The editors identify as particular worries the growing segmentation and casualisation of employment and the downward pressures on the wages of low-skilled workers (p.3).

The first part of the book offers comparative statistical analysis of the situation across Europe. Amongst the conclusions are that in the UK in-work poverty is caused both by partners' low labour market participation and by low wages (p.32) and that in an era of high unemployment active labour market policies cannot on their own prevent poverty.

The second part contains chapters on various countries. The chapter on the UK concludes that working poverty is rising, that it is due mainly to low work intensity (p.91), and that means-tested in-work benefits have kept in-work poverty down to average European levels, which our earnings inequalities would otherwise have taken us above.

The third part of the book tackles cross-cutting themes and finds high mobility (in-work poverty is often transitory and recurrent) (p.199). Studied as individuals, women more often suffer in-work poverty than men (a fact not often noticed because so many women are in households with men) (p.229), that standard of living inequalities correlate closely to individual wage inequalities (p.246), and that in-work poverty is higher amongst non-EU migrant workers than amongst migrant workers from within the EU (p.271). A chapter on the effect of tax and benefits policies on in-work poverty finds, unsurprisingly, that means-tested benefits mean that higher earnings often don't translate into higher disposable incomes (p.281). It also suggests that there is a trade-off between redistribution and employment incentives, and finds that in-work benefits can cause a particularly acute disincentive problem for a household's second earner, resulting in adverse effects on the incentive structure for couple households (p.302). The authors find that incentives are not an important determinant of employment rates amongst the low-skilled. In countries where work pays the least, in-work poverty is lower because general anti-poverty policies reduce in-work poverty as well as out-of-work poverty, and that in-work benefits most effectively increase employment and reduce inequality where wage inequalities are high. The authors 'question the political pertinence of an instrument whose effectiveness is greatly reduced when approaching its apparent objective'. It is stating the obvious to suggest that in an economic downturn the priority should be generous universal unemployment benefits (p.302).

In their overall conclusions, the editors find labour market activation policies to be expensive and relatively ineffective, and the UK's in-work means-tested benefits expensive and a source of disincentives, particularly for a household's second earner: 'Research ... does not indicate a strong effect overall on employment levels in spite of claims to 'make work pay'. This is likely to be affected by other aspects of the institutional context, notably benefits for those not working and the conditions attached to them.' (p.314)

This comprehensive and thoroughly-researched book quite rightly offers no simple political programme for the reduction of in-work poverty. What it does offer is a sense of the complexity of this policy field, and a source of information and properly tentative conclusions which anyone attempting to develop policy in the field really ought to read.

Karl Hinrichs and Matteo Jessoula (eds), *Labour Market Flexibility and Pension Reforms: Flexible Today, Secure Tomorrow?* Palgrave Macmillan, 2012, xviii + 262 pp, hbk, 0 230 29006 8, £55

Time was when a lifetime of full-time employment would be followed by retirement on a contributory state pension supplemented, for the fortunate, by an occupational pension, and, for the less fortunate, by a means-tested state supplementary pension. Both employment and retirement income were relatively secure. Employment is now less secure, and increasing numbers of people experience part-time employment, short-term contracts, and periods of unemployment, making 'flexicurity' an important social policy aim: flexible labour markets accompanied by secure incomes and public services.

The chapters in this book are the result of a European Commission funded research project on the prospects for income security in old age in a Europe increasingly characterised by insecure employment and therefore flexible employment patterns. The problem that policy-makers and the book's authors face is that many state and occupational pension schemes are posited on the now outdated notion of the 'standard employment relationship' – lifelong, stable full-time employment. Such schemes, whether state, occupational, or private, are funded by employee and employer contributions. Less stable employment patterns mean fewer and lower contributions and thus less income security in old age.

Each of the book's chapters studies the current pension structure, labour market position, and recent reforms, in a particular country. There are chapters on Germany, Italy, Poland, Switzerland, Denmark, the Netherlands, and the UK. The editors conclude that these countries fall into three groups and that each group exhibits a particular pattern of recent reforms. Countries that previously relied for retirement income on state contributory pensions have raised contribution rates and/or subsidized the insurance fund out of general taxation, and have now introduced private and occupational pension schemes. In countries with already more than one of the three 'pillars' of pension provision – state, occupational, and private – the emphasis has tilted towards private and occupational schemes, and now towards compulsory enrolment in funded portable defined contribution schemes which blur the boundary between private and occupational pensions. Eastern European countries are seeing both the development of contributory public schemes and a transition into privately funded pensions.

On the basis of the research results presented in the individual chapters the editors conclude that in segmented labour markets (for instance, in Germany, where 'insiders' still experience considerable employment security, and 'outsiders' highly insecure employment) pension provision 'dis-integrates': that is, it is worse at poverty prevention and income maintenance for those experiencing more fragmented labour market participation than for those in more secure employment; that in countries with more homogenous labour markets (as in the UK, where employment insecurity is more equally shared across the labour market) there are integrating elements in the pension system; and that where the labour market is highly homogenous, as in Denmark, the pension system is highly integrated. Central to the integrating characteristics of Denmark's and the Netherlands' systems are their 'generous basic pensions based on residence ... These schemes are crucial in preventing poverty in old age, especially for workers with interrupted carers or on an atypical contract, as well as women, who mainly work part-time' (p.244). What isn't entirely clear is what's causing what: Does a more or less homogenous labour market result in a particular pattern of reforms, or is there some third factor causing both the labour market type and the reform pattern?

In the UK we might soon be moving in a more universalist direction. If we want to prevent poverty in old age then the evidence of this book suggests that it is in this direction that we should move, because it is in this direction that flexicurity can be achieved. The more general lesson to be drawn from the book is that poverty prevention and income maintenance in old age will be best served across Europe by universal state pensions accompanied by compulsory enrolment in portable funded defined contribution schemes to which both employer and employee contribute.

This is a well researched, well edited, and clearly written book, and anyone with anything to do with pensions policy should be reading it.

Emma Carmel, Alfio Cerami and Theodoros Papadopoulos (eds), *Migration and Welfare in the New Europe: Social protection and the challenges of integration*, Policy Press, 2011, xiv + 261 pp, hbk, 1 847 42644 4, £70

The introductory chapter of this timely edited collection outlines the issues to be discussed throughout: policy combinations, institutions and political structures, and the resulting integration and inclusion of migrants. This is followed by a discussion of the role of emotions, beliefs, preferences and opportunities in policy-making.

The first part of the book contains chapters on the differences between different national migrant integration regimes (always the result of different political economics of labour and welfare); on the European Union's attempt at a coherent migration policy which links utility, security and integration policies; on the contradiction between the right to emigrate and a destination country's ability to deny entry (meaning that we need a new European migration morality); and on the causes of migration and of different degrees of labour market integration.

The second part contains studies of migration and social protection policies in different EU countries. In Italy, the relative importance of social protection provided to employees in large companies disadvantages migrants, who tend to work in smaller companies. Migrants are also disadvantaged by their weaker position in relation to welfare rights and their security of residence. Germany practises differential inclusion, with guest workers the least included, second-generation German-born people somewhat more included, and ethnic German repatriates the most included. The social security regime, being based largely on contribution records, disadvantages migrants. In Hungary, EU accession has added new elements to an already complex migration pattern.

The chapter on Finland contains the most detailed study of a social security system and its relationship to migration. In Finland's case residency is a more important criterion than employment status or length of labour market participation. Because immigrants often don't achieve rights to residency, their access to the main social security provisions remains employment-based and thus precarious, leaving them reliant on a low-level means-tested safety net.

The chapter on the UK, accurately entitled 'wilful negligence … the absence of social protection in the UK,' details UK immigrants' lack of access to the labour market and to social security benefits, and also a detention regime which includes the incarceration of children. The UK has a long history of both permanent and temporary immigration, which has resulted in complex and differentiated labour market patterns. It's a pity that a detailed case study doesn't include a section on immigrants' social security experiences. What does emerge is a picture of insecure recent immigrants and of exploited migrant workers.

The final section of the book integrates into an understanding of migrant experience of a number of disparate cultural and political factors, and here the UK's multicultural policies fare rather better than our treatment of illegal immigrants and asylum-seekers awaiting determinations of their status. The first chapter in this section asks that welfare right should be viewed in the context of each cultural situation; the second studies the influence of urban, sub-national policy actors; and the third compares Israel's positive attempts to integrate (certain groups of) immigrants with Europe's more patchy experience.

The concluding chapter finds social security regulations to be discriminating, and it puts to us the challenge of creating 'inclusion, integration and social protection' (p.253) for migrants across Europe. Advocates of a Citizen's Income approach to benefits reform will recognise this as a challenge which a Citizen's Income would meet, but only if a Citizen's Income is to be paid to every current resident, including new arrivals.

Barry Knight (editor), *A Minority View: What Beatrice Webb would say now*, Beatrice Webb Memorial Series on Poverty, vol.1, Alliance Publishing Trust, 2011, 128pp, pbk, 1 907376 11 5, available from the Webb Memorial Trust, webb@cranehouse.eu

Beatrice Webb's contribution to a Royal Commission on the Poor Law just over a hundred years ago was a Minority Report which set out five main principles:

- Poverty has structural causes
- Prevention is better than cure
- Dependency should be avoided
- Services should be integrated
- The state, not philanthropy, is responsible. (p.11)

The Government of the time took no notice, but Beveridge had worked as a research assistant on the Minority Report and its findings clearly informed his own 1942 report on National Insurance.

The world is now different, but poverty persists, and the contributors to this collection of essays ask themselves: What would Beatrice Webb have said today? Their suggestions include minimum income standards, supporting poor children in working families (which does *not* mean enforced low-paying employment), restoring the Child Trust Fund, small-scale lending, raising the tax threshold, retaining universal Child Benefit, reducing labour-market disincentives (rather than regenerating poor neighbourhoods), affirmative action to address discrimination and exclusion, and the active pursuit of gender equality.

In his final chapter, the editor lists four definitions of poverty: 'absolute low income … relative low income … material deprivation … index of multiple deprivation …' (p.119): but these are all *static* concepts. A dynamic definition of poverty would be this: 'A structural inability to create one's own path out of poverty'. This definition reveals high marginal deduction rates and complex administrative and income uncertainty and continuity problems on changing one's employment status to be the serious problems which they are.

Of particular interest is the number of suggestions which would reduce marginal deduction rates. Peter Kenway suggests 'raising the level of the personal allowance to remove low earners from income tax altogether; raising the level of the income thresholds above which benefits and tax credits start to be tapered and/or council tax begins to become payable; reducing the rate at which tax credits and benefits are tapered away as earnings rise; … reintroducing a (lower) starting rate of income tax' (p.56); and Jonathan Bradshaw calls for Child Benefit to remain universal and shows how effective it is at reducing poverty. Of equal interest is Steve Osborn's finding that 'the uncertainties created by the current benefits system and its implications for moving poor people into employment' (p.80) is a serious problem.

If increasing inequality is a major problem, if income uncertainty across changes in someone's labour market status are a problem, and if high marginal deduction rates are a major cause of poverty (and in the context of a dynamic understanding of poverty they are), then surely what Beatrice Webb would be saying today is what she said in 1909: that universal services are what's required; and she would also be saying today that a universal unconditional income for every age-group would prevent poverty, would tackle some of poverty's structural causes, would reduce dependency, and would integrate tax and benefits, and that it is the state's responsibility to see that it happens.

Matthew C. Murray and Carole Pateman (eds), *Basic Income Worldwide: Horizons of Reform*, Palgrave Macmillan, 2012, xv + 271 pp, hbk, 0 230 28542 2, £57.50

This book is a most useful survey of international experience of Basic or Citizen's Income, of benefits sufficiently similar to enable them to be regarded as on the way to a Citizen's Income, and of significant legislative attempts at Citizen's Incomes. The book complements *Basic Income Guarantee and Politics*, edited by Richard Caputo and recently published by the same publisher, with which it overlaps to some extent, but not too much. Both books are essential reading for anyone interested in how experience of Citizen's Income, and debate about it, are developing worldwide.

Some of the material in the first part of the book will be familiar to readers of this *Newsletter*, but some will not be. The Alaska Permanent Fund Dividend will be well known, but less well known will be some highly positive results from United States and Canadian Negative Income Tax experiments. This *Newsletter* has already reported stunning results from the Namibian Citizen's Income pilot project, but less well known are the complexities of Brazil's and Canada's political economies and their effects on benefit reform.

The second part of the book describes Basic Income proposals for East Timor, Catalonia, South Africa, Ireland, Germany, New Zealand, and Australia. The overall impression is of a widespread global debate, different in different countries, but with lots of connections between the different national debates.

Murray's concluding chapter is understandably effusive about the results of the Namibian pilot project, and about the brake on inequality provided by the Alaskan Permanent Fund Dividend. Conditional schemes, on the other hand, are found to lead to new inequalities (p.253), and tax credit and negative income tax schemes to have similar problems (p.255). Murray recognises the different effects of different political contexts, and this reviewer was particularly struck by ways in which more federal political arrangements, such as those in the USA and Brazil, can make the debate more possible locally but quite complex nationally.

One issue over which the editors seem to be somewhat confused is that of terminolog. In this book, 'Basic Income' usually means an unconditional and nonwithdrawable income for every citizen, but sometimes it means a class of benefit types of which an unconditional benefit is one member (e.g., p.251), which leaves the unconditional and universal benefit without a name. A similar problem arises in the introductory chapter, which lists some important questions: What form should the payment take? How much should it be? Should it be unconditional? Should it be universal? Can it be afforded? How should it be funded? Some of these questions are 'controversial questions' surrounding 'Basic Income' (p.2) if 'Basic Income' is understood as an unconditional, nonwithdrawable and universal income: but some are not. The question 'Should the payment be universal?' is a question about whether we should have a Basic Income. It is not a question about a Basic Income. Similarly, 'Should the income be paid unconditionally?' is a question about whether or not we should have a Basic Income. By the end of the introduction we are entirely unsure about what the term 'Basic Income' means.

I know that this has been said in these pages before, but it clearly needs saying again: clarity of definition is essential to rational debate.

Our position is this: A 'Citizen's Income' or a 'Basic Income' is an unconditional, nonwithdrawable income for every individual as a right of citizenship. The terms should not be used for anything else. Other terms, such as 'social dividend' and 'universal grant' are equivalent, but only if they mean the same thing. (We do not use 'Basic Income Guarantee' because a guaranteed income can mean an income achieved by means-tested benefits.) Widespread agreement on the meaning of terminology would considerably help the clarity of debate, both individual national debates and the global debate, and it would have helped the editors and authors of the book under review to express themselves more clearly.

But having said all that: Murray and Pateman have provided us with a most useful collection of essays on some highly significant Citizen's Income experiences and debates, and anyone interested in that debate should read this book.

Hartley Dean, *Social Policy*, 2nd edition, Polity, 2012, xi + 157 pp, pbk, 0 7456 5178 1, £12.99

Hartley Dean's passion for social policy is rooted in twelve years spent working for an advice centre in Brixton. This reviewer's passion for the subject stems from just two years working in Brixton's Supplementary Benefit Office around the same time, but the question that has stayed with both of us is the same: How can we most effectively make provision for diverse human need? This second edition of Dean's 'short introduction' on social policy is even more focussed on this question than the first edition, and although it retains the structure and much of the content of the first edition, it fully recognises the social and social policy change that has occurred during the last six years: for instance, the increasing expectations of the voluntary sector in relation to service provision.

Rather than being structured around such topic areas as education, health, and poverty, as some introductory texts in social policy are, this book is structured around a series of questions: What *is* social policy? Where did it come from? Why on earth does it matter? What does human wellbeing entail? Who gets what? Who's in control? What's the trouble with human society? Can social policy solve social problems? How are the times a-changing? Where is social policy going? A topic approach offers the student an understanding of discrete social policy fields, but will not necessarily enable them to grasp what social policy *is* or why it matters, whereas reading Dean's book, and grappling with the questions that it asks and attempts to answer, will hammer home for the student that social policy is about the systematic meeting of human need. (The new edition has benefited from Dean's recent work on human need, published in 2010 in his book *Understanding Human Need*.)

If there were to be a third edition then I would ask for two additions:

As an advice worker, Dean would have grappled with the administrative complexity of the means-tested benefits administered by the office for which I once worked. The code of regulations filled a bookshelf, and knowing one's way around those regulations was a major task in itself. But whilst means-tested benefits are discussed in the book, there is no mention of the administrative complexity which they impose on individuals and households. 'Administration' is not in the index. A general long-term shift in academic interest is in evidence here. If Dean had been a professor at the LSE during its earlier years, then he would have worked in the Department of Social Policy and Administration, rather than in the Social Policy Department. To include material on the administrative complexity of means-tested benefits in the next edition of his book would help tor reinterest social policy departments in such important administrative matters.

Dean helpfully distinguishes between Social Policy (capitalised: the academic subject) and social policies and social policy (lower case: policies enacted, and the category to which they belong). What would be helpful in the next edition of the book would be more discussion of the policy *process*: that is, how do social problems come to be recognised as such, how are political considerations *in practice* involved in the process, and how do policy ideas become legislation and regulations? Perhaps in the next edition we shall find 'civil service' and 'think tank' in the index.

But having said all that, this is a most useful book, and it is good to have an updated edition. Social policies matter, and therefore Social Policy matters. The book will give to undergraduate social policy students a good grounding in the questions at the heart of their discipline, and will remind them why they are studying the subject. What would be even more interesting would be for an examinations board to establish an A level in social policy (- a social policy module already exists within a sociology A level) and for a new edition of Dean's book to be written in a format appropriate for sixth formers. This would do wonders both for Social Policy and for social policy.

Viewpoint

Why Austerity is the Wrong Answer to Debt: A Call for a New Paradigm

by Geoff Crocker

The delinkage of productivity and real wages is the underlying cause of the economic crisis. As a result of this delinking, consumer income has lagged output GDP, and the gap has been funded by consumer credit and increased debt-financed welfare payments. This proved unsustainable, and so led to the coalition's current austerity policy and GDP cuts. An alternative paradigm is needed in which the financial sector is re-engineered and financial instruments redefined to serve the real economy.

The debt crisis persists. In the US, the Eurozone, and the UK, politicians are implementing dire austerity packages in order to reduce government deficits. Greece and Italy may be in the worst position, but the phenomenon deeply affects the majority of developed economies.

Faulty thinking

How has this come about? The popular answer trotted out as the daily news mantra that governments have been reckless, bankers have been greedy, and consumers have been overspending, is too simplistic. The problem has deeper roots and causes, and will continue unabated unless these are better understood and addressed by policy.

Current talk is entirely monetarist. Economics is reduced to some sort of meta-accountancy. Keynes is derided by people who have never read him. Leading economics media commentators often have no formal economics training or degrees. Economics degrees themselves have often been restyled as ‘economics, finance and business’ degrees. The British Chancellor of the Exchequer tells the nation that it ‘cannot afford’ economic activity, which has to be cut because we simply ‘don’t have the money’. But the real economy is about real resources of people, skills, infrastructure, technology, land. All of these are available.

Standing back for a moment, isn’t it curious that human societies allow the money that they themselves create as an artefact to serve the real economy, then allow it to dictate their real economic behaviour? The tail really is wagging the dog. In the present structure, governments must raise money from the bond markets, who insist on repayment at interest rates which these markets determine according to their own level of confidence. Thus society and its governments are entirely subject to the prescriptions of bond dealers and credit rating agency speculators, who have no remit or capability in social leadership and management. Curious again, that UK political comment which is so troubled about ‘handing sovereignty to Brussels’, and to non-elected technocrats, is entirely supine in handing far greater sovereignty to bond dealers and credit rating agencies. Standard and Poor’s, Moody’s, and Fitch are entirely unelected and lack any democratic accountability, and yet are allowed to sit in easy judgment on our total economies, and to determine their prospects and scope for action. We can thank Michel Barnier, the EC Internal Market Commissioner, for seeking to constrain them. He deserves our support.

Rethinking money

We need a new paradigm in which we understand money and financial agencies as servants rather than as masters of the real economy. Money is virtual, not real. It does not obey the laws of thermodynamics : it can be created or destroyed. Commercial banks do this regularly. They operate lending ratios whereby they lend a multiple of the deposits lodged with them. Market economies ‘print money’ all the time in this way as a regular practice. A sustained total run on the banks would always cause them to collapse. The system is supported only by confidence. The only rule is that the amount of money in circulation has to be matched by real output, if its value is to be maintained. To allow monetary factors to determine policy for the real economy is like trying to drive a car by bending its speedometer needle.

An alternative diagnostic

So what alternative diagnostic of the ongoing debt crisis is available? A thought experiment might help. In an imaginary totally automated economy with no workers, there would be no wages, and therefore no effective monetised demand. Goods and services would therefore have to be allocated by government to consumers by some voucher or shareholder mechanism. As Bob Crow, the RMT union leader put it in his ‘Lunch with the Financial Times’ interview in March last year, ‘if you have robots build cars, how are robots going to buy them?’.

A more erudite version of the same concept comes from Professor Robert Solow, a distinguished emeritus professor at MIT and Nobel Economics Laureate, who points out that with burgeoning production from advanced technologies ‘the wage will absorb only a small fraction of all that output. The rest will be imputed to capital...the extreme case of this is the common scare about universal robots : labour is no longer needed at all. How will we then live? ....The ownership of capital will have to be democratised...(needing) some form of universal dividend...Not much thought has been given to this problem’ (in ‘Revisiting Keynes’ by Pecchi and Piga, MIT Press 2010, p92).

In this scenario, the total voucher spend by the government would represent an unavoidable debt which would never be paid off. We are not there, but we have strong elements of this scenario in our modern technological economies. The delinking of productivity and real wages makes debt inevitable.

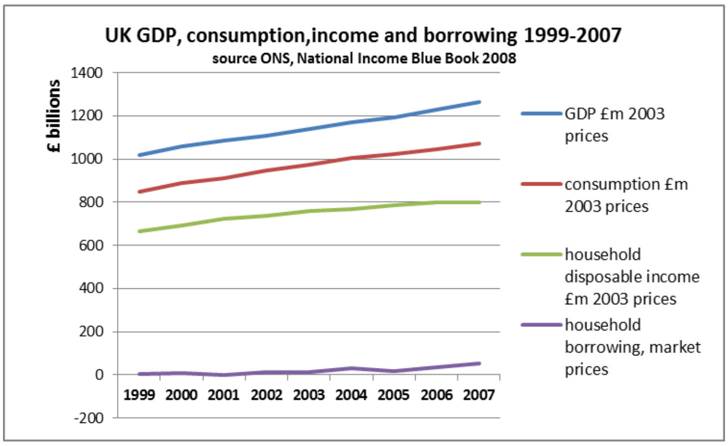
A general diagnostic for technologically advanced economies then emerges that whenever productivity exceeds real wages, and if the difference is not fed through to consumer demand via increased shareholder dividends or social transfer payments, then consumer demand will be insufficient to purchase output GDP. In this situation, which can and does occur, the shortfall in consumer demand can be made up by extended consumer credit and welfare payments, or output GDP can be cut in a recession. The diagnostic bears some resemblance to Marx’s and Keynes’s thinking on the implications for technology, automation and productivity on the economy, but should not be dismissed for this honourable association.

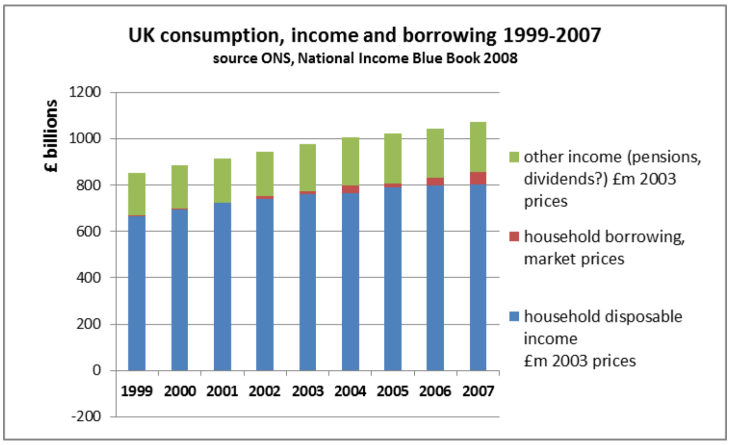
A recent history of the problem

2007 was the root of the present crisis. If we go back to UK economic data then, we find that between 2005 and 2007

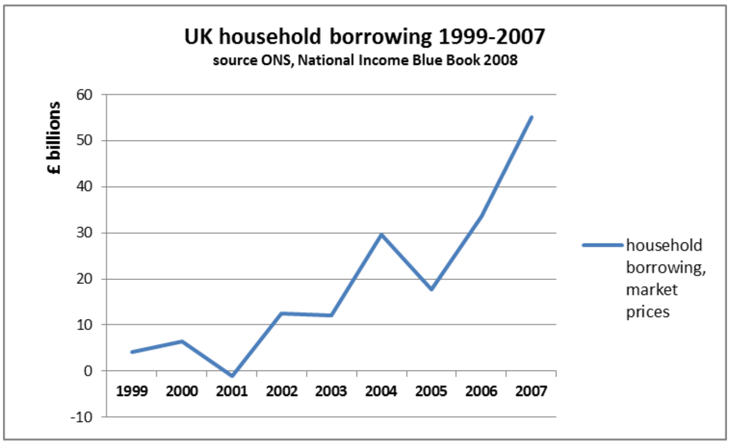
- GDP and consumption continued to grow but household disposable income flattened
- in 2007 real household disposable income grew by only 0.1% whilst GDP grew by 3%
- household disposable income reduced as a percentage of consumption from 78.2% to 74.7%
- the gap was met by increased household credit which grew from £17bn to £55bn

This is shown in the following graphs (where 'household borrowing' refers to new household borrowing in each year):





The familiar dramatic increase in household credit is less apparent in the scale of the above GDP diagrams but is evident when graphed alone in the following diagram



£55bn new consumer debt in 2007 became essential to fund the purchase of output GDP. Without it GDP would have fallen due to decreased effective demand, and employment, wages and income would then have fallen as a consequence.

Vicious circles

The current system faces two alternative vicious circles, either that

1. increased productivity reduces the wage and household income element of GDP and this demand drop leads to a GDP recession

or 2. the demand gap is filled by increased consumer credit and government debt to fund welfare payments, which becomes un-repayable in the next period.

Neither is sustainable and leads to banks reducing consumer credit, and government cutting the real economy in the mistaken belief that this will eliminate its deficit. This is where we are now, and without a radical rethink, we will be chasing our tails for ever in the doomed attempt to write off deficits from an ever shrinking GDP. Those who call for increased government expenditure under a Plan B to raise GDP (which would have the effect of raising the tax take and reducing welfare payments and hence reducing the deficit) are derided by their critics who ask how it can be possible to incur debt to reduce debt. But the coalition's Plan A insistence on cutting the economy to reduce the deficit has to explain how GDP can be increased by cutting GDP.

New thinking

An alternative paradigm is needed to frame an alternative policy. There is nothing wrong with the real economy. Its factories, transport and communications infrastructure, skilled labour, restaurants etc. are all fully operational and highly efficient. There is also plenty of real demand for goods and services, especially globally from developing country consumers. It is purely the financial system which is disabling the real economy, and it is the financial sector which therefore urgently needs re-engineering.

It is commonly said that banks lent too much credit in 2007, firstly in the US sub-prime mortgage market, and then widely in the UK economy. But the above analysis shows that £55bn of bank lending was exactly the right amount needed to purchase GDP output, a claim which is substantiated by the lack of inflation in goods and services markets both then and throughout the NICE decade. It is true that asset prices inflated, but this resulted from any credit beyond that £55bn. The £55bn consumer credit matched against GDP output was non-inflationary.

Distributive considerations

Productivity growth in excess of real wage growth, and the gap between consumer income and GDP output that this produces, has distributive consequences. Between social groups, it tends to disfavour the poor, who rely more on the wage element of income, who suffer the loss of low-skilled employment when automation displaces labour, and whose access to credit as a replacement for wages is weak. Welfare payments are their only recourse. Surprisingly, the Institute of Fiscal Studies report 'Poverty and Inequality in the UK: 2011' shows that increased welfare payments did overcome income disadvantage. According to the IFS study, child poverty at 20% is now the lowest since 1985, and pensioner poverty is currently lower than at any point in the last 50 years.

The sectoral distribution of GDP is also affected by automation. Manufacturing employment and real wages per unit of output will fall, and much of this employment is transferred to low wage service sectors of the economy, only some of which, like banking, are subject to automation and productivity improvement. From anecdotal evidence, increased low productivity, low-wage service sector employment has absorbed employment reduction in more automated manufacturing sectors, and masked the effect of productivity in reducing aggregate real wages. Population growth is another factor masking the demand deficiency resulting from the delinkage of productivity and real wages.

We could of course take the view that reduced consumption is exactly what we want as part of a new ascetic paradigm to conserve world resources. Competition for natural resources from China and India may well force this choice on us anyway. But if we do pursue this option, income redistribution to those newly unemployed through productivity gains unmatched by new demand will be an essential part of the paradigm. Some form of welfare payment which does not add to government debt would be needed.

A Citizen's Income – the only route to stop debt being inevitable as productivity grows

If it is accepted that the delinkage of productivity and real wages will make an element of debt financing inevitable, then a possible way forwards is a non-repayable financial instrument, a universal credit. This would have to be non-repayable at both consumer and government level. Proposals for a citizen's income are longstanding. Such an income would not be repayable by the consumer and could be financed without incurring government debt. This could be done by creating a public sector bank with a government deposit, and a lending ratio set to exactly meet the shortfall between output GDP made possible by increased productivity, and flat or declining real wages. If the £55bn incurred as consumer credit in 2007 had instead been funded in this way then the economy would not face the crisis that it faces today. We have to think outside the box. Calls for a plan B are stuck within the present paradigm. This new paradigm would re-engineer the financial sector and the management of inevitable debt. It would release the real economy from artificial financial constraint, and deliver sound finances built on productivity advances. It would also greatly enhance social cohesion.

Geoff Crocker is an industry strategy consultant and is author of *A Managerial Philosophy of Technology* (Palgrave Macmillan, 2012)

The Citizen's Income Trust's website

www.citizensincome.org

is now in a new format. We hope that you will like it and that you will explore its pages.

(So far only the most recent website versions of the *Citizen's Income Newsletter* are in the new format. The website versions of the *Newsletter* up to 2011 are still in the old format. We shall be working on these when we have the time.)