Editorials

Transparency

In his July 2015 budget statement, the Chancellor of the Exchequer, George Osborne, promised to increase the Income Tax Personal Allowance to £12,500 and the Higher Rate Threshold to £50,000 by 2020.¹ What he did not tell us was the effect. As the Institute of Fiscal Studies explains:

Tax and benefit changes are likely to act to increase inequality over the course of the current parliament. The gains from the Conservative plans to increase the income tax personal allowance to £12,500 and the higher-rate threshold to £50,000 by 2020 would be concentrated in the top half of the income distribution, with those in the 9th income decile (between the 80th and 90th percentiles) gaining the most as a proportion of income.²

The problem with personal tax allowances, other tax allowances, National Insurance Contribution rates and earnings limits, etc., is that the effects of changing them are not always obvious.

A Citizen’s Income would behave very differently. If a particular age group’s Citizen’s Income were to rise by £x per week, then every week each citizen in that age group would receive an extra £x into their bank account. Anyone still on the residual means-tested benefits that some Citizen’s Income schemes might require could lose means-tested benefits because of the increase in their other income, but that would be the fault of the means-tested benefits and not of the rise in their Citizen’s Income – and the rise in Citizen’s Income would in any case bring them closer to coming off means-tested benefits altogether.

A further virtue of a Citizen’s Income is that everybody would be treated in the same way. No longer would the Institute for Fiscal Studies be able to say that members of one income decile would benefit more than those in another. Whichever income decile you were in, your Citizen’s Income would rise by £x per week, and you would receive an additional £x into your bank account.

Governments are not renowned for seeking transparency when it comes to the tax and benefits systems: but it ought to be a virtue to aspire to. A good place to start would be to implement a Citizen’s Income in place of personal tax allowances and large parts of the benefits system. A Citizen’s Income would be an income for every citizen. Greater transparency could not be possible.
The Adam Smith Institute and a Negative Income Tax

The Adam Smith Institute has contributed to the current debate on income maintenance by publishing *Free Market Welfare: The case for a negative income tax.* 3 The Institute summarises the report:

- Lower trade barriers, automation and cheaper transport have brought millions of extra low- and un-skilled workers onto the world market. While this has raised living standards and productivity overall, it has also created a group of people whose relative position has weakened considerably: lower skilled workers in developed countries. Globalisation has lowered the market value of many workers’ skills to the point that the clearing price for some labour cannot provide a growing proportion of the UK population with an income that meets the popular definition of minimum living standards - even though it has also contributed to cheaper consumption bundles.

- This has been partially masked by government welfare policies but the current stopgap solutions to this are costly, ineffective and overly complex leaving many people stuck in poverty traps and financial insecurity. Recent proposed changes to the tax credit and minimum wage systems will only exacerbate the problems facing low-productivity workers.

- This paper will make the case that if any type of poverty spending is necessary, it should be the one which can provide the simplest, clearest system which places an emphasis on incentives, freedom and choice: A Negative Income Tax.

A negative income tax (NIT) could deliver the same relationship between disposable income and earned income as a Citizen’s Income, so the Institute’s initiative is to be welcomed. However, the report says that any replacement for the current benefits system should be ‘administratively simple’, but in the report the detail of the administration of a NIT is not discussed.

A NIT could be administered by the Government or by the employer. If the Government administers the NIT, then the employer must provide regular and accurate earnings information to the Government, as with the current Universal Credit. If the employer administers the NIT then if someone moves between employers their NIT administration has to be transferred between employers; if they have a period of unemployment then administration of the NIT has to be handed to the Government and then on to the new employer; if someone has two employments then the employers have to decide which of them will administer the NIT; and if someone has occasional other earnings then their employer needs to be informed so that either some of their NIT can be withdrawn or additional tax can be charged.

If every working age adult receives the same rate of NIT both above and below the break-even point (the point in the earnings range at which neither tax is deducted nor negative income tax paid out) then neither their employer or the Government needs to know any personal details. If people in different circumstances receive different NIT rates or have different break-even points then their employer and the Government will need to know individuals’ circumstances in order to allocate administer the NIT correctly.

Our current income tax system is cumulative. An certain amount of income is not taxed each year: so each week, or each month, the employer has to calculate how much tax to deduct so that by the end of the year the correct amount of tax has been deducted. With NIT, the tax system would be non-cumulative. Each week, or each month, NIT would be paid out or tax would be deducted. A non-cumulative system requires a single tax rate, so anyone paying higher rate tax would need to pay additional Income Tax at the end of the tax year.

The administration of a Negative Income Tax would be complicated. The administration of a Citizen’s Income could not be simpler. Given that both NIT and Citizen’s Income would have the same effect on disposable incomes, a Citizen’s Income should be preferred.

It is a pleasure to see the Adam Smith Institute sponsoring research and engaging in this debate. We hope that a further research project will evaluate details of the administration of both NIT and Citizen’s Income and that the Adam Smith Institute will then issue a further report.

Terminology

One area in which transparency is somewhat lacking is in relation to terminology. A tax credit – a real one - is paid by someone’s employer or the tax authorities and is specified by a monetary value and a withdrawal rate. Someone with no earnings receives the total monetary value of the tax credit. As their earnings rise less of the tax credit is paid until it is totally withdrawn (at the break-even point). As earnings rise beyond the break-even point income tax is deducted. The employer then deducts the tax credits paid out before paying their employees’ income tax to the Government.
What the UK Government calls ‘Working Tax Credit’ is not a tax credit. It is a means-tested benefit. ‘Universal Credit’ isn’t a tax credit and it isn’t universal.

The Chancellor’s July 2015 Budget Statement gave us a new misnaming. Since its early involvement in the UK’s Living Wage campaign, the Living Wage Foundation has defined a Living Wage as the hourly wage required to provide a minimum standard of living. The current national rate is £7.85 per hour, and the rate for London (calculated separately by the Greater London Authority) is £9.15 per hour. 4 But the Chancellor has now used the ‘Living Wage’ terminology to describe a National Minimum Wage of £7.20 per hour. His ‘National Living Wage’ will rise to £9 per hour by 2020. 5 This looks very different from a Living Wage as that has previously been understood. Not only has the Chancellor misnamed his own enhanced National Minimum Wage, 6 but he has deprived the Living Wage campaign of its own terminology.

Let us be clear: a Citizen’s Income, or a Basic Income, is an unconditional, nonwithdrawable income for every individual as a right of citizenship. It would be paid at the same rate to every individual of the same age, and it would never be reduced as other income rose. We would be grateful if the Chancellor of the Exchequer would be careful not to use the terminology to refer to anything else.

Notes
2. www.ifs.org.uk/publications/7878, p 41
4. www.livingwage.org.uk/calculation

Main article
Citizen’s Pension in the Netherlands
by Jay Ginn

A pension for all citizens aged over 65 was introduced in the Netherlands in 1947 by a social democrat minister. The flat rate, tax-funded pension, called the AOW (Algemene Ouderdomswet) is payable in full at pension age to all individuals with 50 years residence, pro rata for those with fewer years. The AOW goes a long way to compensate women (and men) for time spent in unpaid caring work (JustLanded).

The amount of AOW is linked to the Minimum Wage (MW). An individual over 65 living alone receives 70% of the net MW, while each of a couple aged over 65 living together receives 50% of MW. The single AOW in 2015 (£1114 per month or £188 per week*) is considerably more generous than the full basic pension in the UK (£116 per week).

Most people who live or work in the Netherlands are automatically insured under the AOW scheme, irrespective of nationality, building rights at 2% pa for the full AOW. However, individuals insured for under 1 year (and born after April 1950) receive no AOW. The Dutch administrative authorities keep long-term records of everyone’s address, employment, tax and National Insurance (NI).

To fund the AOW, Dutch tax and NI are somewhat higher than in UK. Dutch combined tax and NI rates for earned income are 34% (£0 - £20,000 pa) 42% (£20,000 - £58,000 pa) and 52% (over £59,000 pa) (CFE). These compare with UK combined rate of 32% for low to average earnings, 42% (earnings over £42,385 pa) and 47% (over £150,000 pa.) However Dutch Personal Tax Allowances only apply to certain groups such as parents with children.

The AOW is usually supplemented by a private occupational pension funded from employees’ contributions. Often these funds are grouped by industry, providing economies of scale and spreading risk more effectively than the thousands of workplace schemes in the UK. However, in the 2008/2009 credit crunch Dutch funds lost considerable sums and many fell below the level necessary to cover liabilities.

About 50% of the money paid out as Dutch pensions is from the state’s AOW, 45% from private pension funds. The remaining five percent are individual private pensions, which have grown recently in anticipation of cuts to the AOW, as public spending is reduced. This mix of sources reflects the wider OECD trend towards private pensions replacing state provision: in 1980, the proportion of pension income from the AOW was 85% (Bosch-Supran 2004).

The Dutch mandatory retirement age (and state pension age) increases to age 66 in 2018 and age 67 in 2021. The equivalent dates for UK are 2020 and 2028. These changes save (or delay) pensions paid out and may prolong taxable employment. Another measure being considered in the Netherlands is to increase taxation of pensioners; this could also occur in the UK if tax and NI are merged.
Other countries with a Citizen’s Pension include Denmark and New Zealand. The differences between Dutch and Danish pensions are discussed by Frericks et al. (2006).

The Dutch Citizen’s Pension is not only workable, but is successful and popular. It gives a secure basic income at a level that is generous relative to the UK’s basic pension to all long-term residents in later life. It contributes to the achievement of a pensioner poverty rate that is one of the lowest in the EU at about 7% for both men and women.

Sources
JustLanded, https://www.justlanded.com/english/Netherlands/Articles/Jo bs/Pensions

Research notes

The net income effects of two Citizen’s Income schemes for an individual earning the National Minimum Wage

by Malcolm Torry

Since 2007 we have published in our introductory booklet a graph showing the effect of a Citizen’s Income scheme on the disposable income of an individual living alone and without housing costs. The scheme represented in the graph has always been similar to scheme A in Malcolm Torry, Two feasible ways to implement a revenue neutral Citizen’s Income scheme, Institute for Social and Economic Research Working Paper EM6/15, Institute for Social and Economic Research, University of Essex, Colchester, April 2015, www.iser.essex.ac.uk/research/publications/working-papers/ euromod/em6-15 (reprinted in issue 3 for 2015 of the Citizen’s Income Newsletter): that is, a scheme that replaces all means-tested benefits except for Housing Benefit and Council Tax Benefit/Support.

We have been asked what the graph would look like for scheme B, which, instead of abolishing means-tested benefits, recalculates them by taking into account the household’s Citizen’s Incomes.

For the graphs in this research note, Income Tax Personal Allowance, National Insurance Contribution earnings levels, and means-tested benefits (in this case Jobseeker’s Allowance and Working Tax Credits) have been uprated to 2015/16 figures. The scheme A Citizen’s Income level has been raised with the level of JSA to £73.10, and the scheme B Citizen’s Income level has been raised by the same proportion to £51.50. The proposals for changes to Working Tax Credits in last July’s Budget Statement have not been taken into account. A significant change from the 2013/14 figures is that individuals living alone now only receive Working Tax Credits once they are working over 30 hours per week.

Scheme A: A Citizen’s Income of £73.10 per week, means-tested benefits abolished, Basic Rate of Income Tax raised to 25%, Income Tax Personal Allowance reduced to zero, National Insurance Contributions paid at 12% on all earned income.

Figure 1 shows how disposable income rises as the number of hours worked rises in the context of the current tax and benefits system.

Figure 2 shows how disposable income would rise as the number of hours worked rose in the context of scheme A.
Scheme B: A Citizen’s Income of £51.50 per week, means-tested benefits retained and recalculated, Basic Rate of Income Tax raised to 23%, Income Tax Personal Allowance reduced to zero, National Insurance Contributions paid at 12% on all earned income.

For a graph showing the net income of a single earner in 2015/16 aged 25 receiving the National Minimum Wage and mean-tested benefits, see figure 1.

Figure 3 shows how disposable income would rise as the number of hours worked rose in the context of scheme B.

Figure 3

Discussion

For this particular household – an individual living alone and without housing costs, and so currently entitled to a low level of Working Tax Credit - scheme A, with its more generous Citizen’s Income, paid for with higher Income Tax rates, would have more impact on the poverty trap at low hours of employment. Scheme B would have less impact on the poverty trap at low hours of employment, and would cause higher losses at higher hours of employment.

With scheme B, individuals living alone and employed for between 30 and 38 hours per week at the National Minimum Wage would be one of the household types that would suffer losses of over 5%. (Above earnings of (40 x NMW) there would be almost no gains or losses for this individual.)

With scheme A, by definition, no means-tested benefits are being paid. For this household, almost the same is true for scheme B. It is therefore highly likely that the individual concerned would not claim any means-tested benefits, but would instead enjoy the lower marginal deduction rates and the larger effect of additional earnings on disposable income that either of these two Citizen’s Income schemes would offer.

Further research is clearly required on larger and more complex households to determine the detailed effects of different Citizen’s Income schemes, which will be different for differently constituted households and for different financial circumstances.
Evaluation of a Citizen’s Income scheme that retains and recalculates means-tested benefits and that sets the working age adult Citizen’s Income at £54.20 per week, particularly in relation to the number of claims for means-tested benefits and the amounts of means-tested benefits claimed.  

by Malcolm Torry

Introduction

This research note builds on a EUROMOD working paper published in April 2015: Two Feasible Ways to Implement a Citizen’s Income, which showed that a strictly revenue neutral scheme (i.e., a scheme that could be paid for by adjusting Income Tax and National Insurance Contributions rates and thresholds and means-tested and other benefits) with a working age adult Citizen’s Income set at £50 per week could be paid for by raising Income Tax rates by 3%, by abolishing Income Tax Personal Allowances, and by making adjustments to National Insurance Contributions. An important difference between this scheme and previous illustrative schemes is that it retained in-

1 This article uses EUROMOD version G2.0++. The contribution of all past and current members of the EUROMOD consortium is gratefully acknowledged. The process of extending and updating EUROMOD is financially supported by the Directorate General for Employment, Social Affairs and Inclusion of the European Commission [Progress grant no. VS/2011/0445.] The UK Family Resources Survey data was made available by the Department of Work and Pensions via the UK Data Archive. All remaining errors and interpretations are the author’s responsibility.

2 £54.20 pw is the value of the working age adult’s Citizen’s Income as it would have been in 2013. The most recent tax and benefits regulations available in EUROMOD version G2.0++ are those for 2013/14, and the most recent Family Resource Survey data is for 2009, uprated to 2013 values. It is therefore not currently possible to simulate Citizen’s Income schemes for more recent periods. The factors that are used to update monetary variables (parameter sheet Uprate_uk) from the mid-point of the data year (October 2009) to the mid-point of the policy years applying on June 30th (i.e. October 2010 to October 2013) are shown in Annex 1 of the EUROMOD UK country report. No other updating adjustments are employed. Thus the distribution of characteristics (such as employment status and demographic variables) as well as the distribution of each income source that is not simulated remain as they were in 2009/10’ (Paola De Agostini and Holly Sutherland, Euromod Country Report: United Kingdom 2009-2013, Colchester: Institute for Social and Economic Research, Essex University, 2014)

A £54.20 Citizen’s Income for working age adults

I have received the perfectly correct suggestion that £50 per week is below the value of the removed Income Tax Personal Allowance and National Insurance Contributions Primary Threshold. A more natural level for the working age Citizen’s Income would replicate that value, suggesting that in the context of the 2013 tax and benefits system it would have been set at £54.20 per week.

I have therefore evaluated this new scheme and found that it would be almost strictly revenue neutral if Income Tax rates were raised by 3.5%; just 0.5% above the rise required for the £50 per week scheme.

As with the scheme in the working paper, the scheme raises National Insurance Contributions (NICs) above the Upper Earnings Threshold from 2% to 12% and the Primary Threshold is reduced to zero. This has the effect of making NICs payable on all earned income at 12%. This seems to me to be an entirely legitimate change to make. The ethos of a flat rate benefit such as Citizen’s Income is consistent with both progressive tax systems and with flat rate tax systems, but not with regressive tax systems. The Income Tax Personal Allowances are set at zero, and a conservative estimate is made of administrative savings.

Table 1 summarises the results obtained from microsimulation of the £50 p.w. scheme in the working paper, and of the £54.20 scheme proposed here.


6 In 2013/14 Council Tax Benefit was centrally regulated. Under the Government’s localisation agenda, its replacement, Council Tax Support, is locally regulated as well as locally administered. This means that every borough in the country can invent its own regulations, and, in particular, its own taper rate. It will be far from easy to include Council Tax Support in future tax and benefits simulations.
Table 1: Citizen’s Income levels for Citizen’s Income scheme based on working age adult Citizen’s Incomes of £50 and £54.20 per week, the increased Income Tax rates required to fund them, and the extent of household losses at the point of implementation. 7

<table>
<thead>
<tr>
<th>Working age adult Citizen’s Income</th>
<th>£50 p.w.</th>
<th>£54.20 p.w. 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizen’s Pension per week</td>
<td>£30 *</td>
<td>£30 *</td>
</tr>
<tr>
<td>Working age adult CI per week</td>
<td>£50</td>
<td>£54.20</td>
</tr>
<tr>
<td>Young adult CI per week</td>
<td>£40</td>
<td>£40</td>
</tr>
<tr>
<td>Child CI per week</td>
<td>£20 *</td>
<td>£20 *</td>
</tr>
<tr>
<td>Income Tax rate increase required for strict revenue neutrality</td>
<td>3%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Income Tax, basic rate (on £0 – 42,010)</td>
<td>23%</td>
<td>23.5%</td>
</tr>
<tr>
<td>Income Tax, higher rate (on £42,010 – 150,000)</td>
<td>43%</td>
<td>43.5%</td>
</tr>
<tr>
<td>Income Tax, top rate (on £150,000 - )</td>
<td>48%</td>
<td>48.5%</td>
</tr>
<tr>
<td>Proportion of households in the lowest disposable income decile experiencing losses of over 10% at the point of implementation</td>
<td>1.50% (and 4.37% with losses over 5%)</td>
<td>1.47% (and 3.78% with losses over 5%)</td>
</tr>
<tr>
<td>Proportion of all households experiencing losses of over 10% at the point of implementation</td>
<td>1.24% (and 15.20% with losses over 5%)</td>
<td>1.48% (and 12.40% with losses over 5%)</td>
</tr>
<tr>
<td>Administrative saving assumed</td>
<td>£1bn</td>
<td>£1bn</td>
</tr>
<tr>
<td>Net cost of scheme</td>
<td>-£1.9bn: i.e. a saving of £1.9bn</td>
<td>Neither a net cost nor a net saving</td>
</tr>
</tbody>
</table>

* Both Child Benefit and the Basic State Pension remain in payment.

The new scheme imposes fewer losses on households in the lowest earnings decile, and overall fewer losses over 5%. (Only 0.11% of households suffer losses over 15%, and then only marginally so).

Given that the working age adult Citizen’s Income is higher, and that the pattern of losses is preferable to the £50 per week scheme, it is the £54.20 scheme that I shall evaluate further here, and in particular I shall evaluate it in relation to a question that I have been asked about such a Citizen’s Income scheme’s effect on the numbers and amounts of claims for means-tested benefits – for one of the claimed advantages of a Citizen’s Income scheme is that it would reduce reliance on means-tested benefits.

7 The method is as follows: A new set of benefits is created in the UK country system in EUROMOD: a Citizen’s Pension (CP) for over 65 year olds, a Citizen’s Income (CI) for adults aged between 25 and 64, a young person’s Citizen’s Income (CIY) for adults aged between 16 and 24), and a Child Citizen’s Income (CIC) for children aged between 0 and 15. In the definitions of constants, levels are set for these Citizen’s Incomes, and all Personal Tax Allowances are set at zero. So that the additional taxable income is taxed at the basic rate, and not at the higher rate, the first tax threshold is changed from 32010 to 42010. The National Insurance Contribution Primary Threshold is set to zero, and the NIC rate above the Upper Earnings Limit is set to 12% (to match the rate below the limit). The Citizen’s Income total is added to non-means-tested benefits and also to the means applied to means-tested benefits. Simulations of the 2013 system and the system being tested generate two lists of household disposable incomes for the entire Family Resource Survey sample. These then generate a list of gains (negative gains are losses), and the total of the gains gives the net cost of the scheme for the sample. To convert EUROMOD’s monthly figures to annual figures, and the sample size to the total population, a multiplier of (12 x 64.1m / 57,381) = 13.4 gives the cost for the UK population. A process of trial and error adjusts the Income Tax rates until the net cost minus the assumed administrative saving is below £2bn per annum. The initial disposable incomes are then ordered, the bottom 10% are selected, and the percentage gains are evaluated. The process is then repeated for all households. The data is then ordered in different ways to obtain the other statistics required.

8 The calculation is as follows: Income Tax Personal Tax Allowance in 2013/14 was £9,440. Removing the allowance would mean additional Income Tax of 9,440 x 0.2 = £1,888 being paid. The Primary Earnings Threshold for National Insurance Contributions was £149 per week. Reducing the threshold to zero would mean additional National Insurance Contributions of 149 x 52 x 0.12 = £930. The total additional payment would be 2,888 + 930 = 2,818, which translates as £54.20 per week: so this is the level of Citizen’s Income required to compensate for the loss of the Income Tax Personal Allowance and the reduction of the Primary Earnings Threshold to zero.
Changes to claims for means-tested benefits brought about by a Citizen’s Income scheme based on a working age adult Citizen’s Income (for all those aged 25 to 64) set at £54.20 per week in 2013.

Table 2 gives the results: ⁹

Table 2: Reductions in the numbers of claims for in-work and out-of-work means-tested benefits and reductions in the number of claimant households claiming more than £30 per week.

<table>
<thead>
<tr>
<th></th>
<th>Tax Credits (Working Tax Credit and/or Child Tax Credit)</th>
<th>Out-of-work means-tested benefits: Income-related Jobseeker’s Allowance, Income Support, Pension Credit ¹⁰</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of households claiming in 2013</td>
<td>20.36</td>
<td>11.92</td>
</tr>
<tr>
<td>% of households claiming under the CI scheme</td>
<td>17.03</td>
<td>7.21</td>
</tr>
<tr>
<td>% reduction in households claiming</td>
<td>16.31</td>
<td>39.57</td>
</tr>
<tr>
<td>% of claimant households claiming more than £30 per week</td>
<td>86.71</td>
<td>92.8</td>
</tr>
<tr>
<td>% of claimant households claiming more than £30 per week under the CI scheme</td>
<td>88.19</td>
<td>23.57</td>
</tr>
<tr>
<td>% of all households claiming more than £30 per week</td>
<td>17.50</td>
<td>11.06</td>
</tr>
<tr>
<td>% of all households claiming more than £30 per week under the CI scheme</td>
<td>15.02</td>
<td>1.69</td>
</tr>
</tbody>
</table>

⁹ See note 7 for the method.

¹⁰ EUROMOD does not disaggregate these benefits when it reports household outcomes. Because of the complexity of the UK’s method for maintain incomes during illness and maternity (statutory sickness and maternity pay and contributory and means-tested benefits) I have not attempted to evaluate the Citizen’s Income scheme’s likely impact on incomes during illness and maternity.

No claims for any of the benefits were found to increase in value.

The number of Housing Benefit claims fell by only 3.57%, but the average reduction in the value of claims was £27.91 (8.79%). Again, no claims increased in value.

Redistribution

Figure 1 shows the aggregate redistribution that would occur if the Citizen’s Income scheme based on a working age adult Citizen’s Income of £54.20 were to be implemented.

Figure 1

Figure 2 compares this redistribution pattern with the redistribution pattern that would occur with the previously researched scheme based on a working age adult Citizen’s Income of £50 per week:

Figure 2

As we can see, the scheme based on the larger working age adult Citizen’s Income generates marginally higher redistribution.
Discussion

Because the only changes required in order to implement the scheme described in this research note would be

- payment of the Citizen’s Incomes (calculated purely in relation to the age of each individual)
- changes to Income Tax and National Insurance Contribution rates and thresholds
- easy to achieve recalculations in existing means-tested benefits claims

this scheme could be implemented very quickly.

A strictly revenue neutral scheme with a working age adult Citizen’s Income set at £54.20 per week in 2013 would have imposed very few losses at the point of implementation, would have redistributed somewhat from rich to poor, would have increased Income Tax rates by only 3.5%, and would have reduced substantially both the numbers of claims for in-work and out-of-work means-tested benefits and the amounts of those benefits paid to households. With a Citizen’s Income scheme of this type, a significant number of households would no longer be receiving Tax Credits, and an equally significant number of households would no longer be claiming over £30 per week. There would be a precipitous fall in the number of claims for out-of-work means-tested benefits, and almost no households would be claiming over £30 per week.

The impact of this quite conservative and easy to achieve Citizen’s Income scheme on both employment incentives and poverty would be both positive and considerable.

Conference reports

‘Will We Crash Again? Why capitalism needs debt write-offs to survive’

Invited lecture by Professor Steve Keen* in the ‘London Thinks’ series at Conway Hall, 1st September 2015

In a packed hall, Keen reminded us of the complacent attitudes of influential mainstream economists before the 2008 crash, such as Bernanke in the US, who believed the post-2000 boom in asset prices would reach an equilibrium or a ‘soft landing’ through market forces. These economists had failed to take account of all the factors involved, especially the effects of escalating private debt. The views of economists predicting disaster had been dismissed.

Keen deplored the stranglehold that orthodox classical economics has on teaching in western universities. He suggested that classical economics resembles a religion, where ‘heresies’ are suppressed by sincere believers. He called for more openness to alternative economic frameworks and critical thinking.

He explained why economies of the developed world are subject to repeated financial crashes, taking in historical examples and analysing the underlying causes by means of data-based dynamic models that could follow the evolution of crisis scenarios under differing economic conditions. When private debt rises to unsustainable levels, Keen’s solution is to reduce it through a Jubilee: a social dividend of perhaps £1000 to every person’s bank account (instead of QE payments to banks that then choose not to invest in the economy). Such a one-off dividend is not dissimilar to the role a Citizen’s Income could play in the longer term, by temporary increases in amount when necessary for the economy.

To control the level of private debt in future, Keen’s solution overlaps with that of Positive Money: the creation of new money by private banks as loans must be curbed, limiting mortgage loans to a low multiple of secure household income, as before the 1980s. He commented that workers don’t realise that it is the finance industry (rather than capitalism as a whole) that is ‘screwing’ them and creating repeated crises with consequent unemployment and austerity. Public spending is not only essential for providing adequate infrastructure for all, but also facilitates innovation more effectively than private enterprise.

* Kingston University. Books include Debunking Economics. See Keen’s website for more information on his work:

Jay Ginn

‘Making Money Work’

an invited talk by Adair Turner * and panel discussion with Steve Keen and Chris Giles (journalist) at Methodist Central Hall hosted by Positive Money, chaired by Fran Boait, sponsored by Rebuilding Society, 7th Sept 2015

Fran Boait introduced, noting the level of ignorance about the monetary system: over 70% of MPs thought loans made by private banks were financed by the BoE and economists also ignore the source of new money. Debate is needed to release the potential for innovation to drive prosperity and stabilise money...
supply, including on Corbyn’s ‘People’s Money’. A Treasury Money Commission is required, to examine the money system. Positive Money now has over 30 groups, including abroad, trying to achieve a rethink of mainstream ideas about money supply.

Adair Turner agreed with Positive Money that bank loans create extra purchasing power from nothing and that such debt must be controlled; but he prefers return to larger fractional reserves (85%) rather than full reserve banking. The assumption that bank loans merely reallocate other people’s savings is still prevalent. On the explosion of private debt and overleveraging for real estate (2000-2007), he noted that debt doesn’t go away, merely changing into public debt. He attacked the macroeconomic orthodoxy that controlling inflation was enough and debt irrelevant, citing Japan in 1990. Despite low inflation, increasing purchasing power was dangerous because over 80% of it did not represent capital investment. What matters is how much extra is created, for how long and for what purpose. Turner advocated ‘helicopter money’ (and mentioned ‘People’s Money’) on a temporary basis (as Friedman had) to maintain adequate effective demand and growth; but permanent reliance on extra money to stimulate the economy, as in Japan, was dangerous. A Central Bank must be independent (within rules) in determining amount and distribution of extra money; there are better ways to distribute QE of £375bn and this is a political issue. Both states and markets can fail without proper regulation.

Panel Discussion. This ranged over how the hegemony of mainstream economics prevented useful debate; whether money supply fuels house price rises (Keen) or is not the main driver of demand (Giles); need to limit private debt to 15% of GDP (Turner and Keen) and to cancel private debt by a dividend to all while state maintains a small permanent deficit (Keen). Banks lend on real estate rather than to business because it is less risky for them; we are still in crisis and China has followed the same doomed path of a credit boom in real estate (Turner). QE is not the same as helicopter money, in which government would inject money into the economy by for example adding £1000 to each person’s bank account (Keen).

Questions to panel.

‘Why are large bonuses paid out when banks are receiving QE?’ ‘Community Banks are an alternative to the national banks, run on a not-for-profit basis with any surplus used for the benefit of the community [Unity Trust Bank says it operates in this way- JG]. ‘People’s QE would help and the public want to buy bonds to fund infrastructure’ [Richard Murphy]. ‘Why isn’t economics taught better?’ [anon]. The assumption that GDP growth is desirable must be questioned, in view of finite natural resources and global warming driven by rising CO2 ruining lives and economies; rising inequality must be tackled too, so what kind of money system will best save the planet and reduce inequality [Natalie Bennett, applauded]. ‘Why not an allowance to all for education and healthcare?’ [Rebuilding Society rep]. ‘Rise in inequality fuelled excess debt; more progressive taxation required’ [Stewart Lansley]. Is QE best for emergency or for decades as in Canada where it boosted employment? [Josh Ryan-Collins, NEF]. Why not give everyone with NI number money in their pocket? They need such money because of cuts to welfare, wages and conditions, which have necessitated debt [Barb Jacobson, CIT and Basic Income UK].

Responses from panel.

Turner. Economics must be taught better, especially to remove the myth that a nation’s economy operates like a household budget. Most economists didn’t see the crash coming despite the best qualifications; should have read Minsky. Politicians can create mechanisms via laws, as with the Climate Change Act. Legally binding CO2 targets are necessary, with monitoring to hold governments to account. Likewise for Central Bank: elect technocrats with tasks and targets. QE should be used as necessary but the amount controlled as 1942-51 in US. BI is an option as a one-off or a regular payment.

Giles. The money supply must be in the hands of an independent body, not politicians, but technocrats screwed up. On climate change, a different money system wouldn’t help, not the solution; we must use traditional public policy. We must ensure rise in demand is not too much greater than rise in productivity. Cutting VAT would be a quick fix to increase effective demand.

Keen. A growing economy needs a growing money supply but we need to control the banks. Because politicians are generalists they use technocrats to adjust money supply but must not cede democratic control to them. A public deficit of 3% pa is fine long term and BI could be paid to all to reduce private debt. We are burning the planet at the rate of 1.5 renewable planets each year. The private sector sees no profit in preventing this – only states can do it.

* Turner has a recent book ‘Between Debt and the Devil’.

Jay Ginn
News

The Resolution Foundation has published a report, *Making the most of UC: Final report of the Resolution Foundation review of Universal Credit*: ‘Today’s high withdrawal rates mean that, for many UC recipients, increasing their earnings may not feel worthwhile. A lower overall taper rate should, therefore, be a clear policy objective. However, there is little evidence as to what the most effective withdrawal rate should be. In principle, we support a significant reduction in the taper rate over the medium term (for instance to 55 per cent or less) to improve incentives. Given the cost of this reduction, and uncertainty over the exact impact this would have on behaviour, we propose testing different lower rates to guide policy in this area. … The coalition government localised CTS in the last parliament and simultaneously cut its budget by around £500 million. As a result, local authorities introduced their own schemes, many of which require a minimum payment towards council tax regardless of a family’s income. This was a mistake. It has greatly complicated the system from the point of view of a UC claimant and may well undermine some of the anticipated key gains. Integrating CTS inside UC would, of course, have cost implications. But savings are likely to be made by centralising its administration, with local authorities currently spending around £800 million delivering CTS. Our view is that CTS assessment should occur within UC, with the precise taper rate determined by the administrative savings released by this move. The current design of UC allows for variations in the generosity of housing support across different areas. Further integration of Council Tax Support could take a similar approach, in line with the Smith Commission recommendations for the devolution of further powers to the Scottish Government’ (pp 13-14, 15-16).


The New Policy Institute has published a report, *Managing the Challenges of Localised Council Tax Support*: ‘… As it stands, it is hard to see how CTS can be integrated with Universal Credit (UC). The variation at local level is the opposite of the national standardisation in UC.’ (p.4) http://npi.org.uk/publications/council-tax/managing-challenges-localised-council-tax-support/

In July the Joseph Rowntree Foundation published new Minimum Income Standard figures for the UK: Minimum weekly budgets (without housing and childcare costs) are stated as follows: single working age, £196.16; pension couple, £264.04; couple and two children: £484.48; lone parent and one child, £291.14. If housing and childcare costs are included, then the figures become £282.29, £350.24, £742.53, and £545.12. http://www.jrf.org.uk/publications/minimum-income-standard-uk-2015

The Institute for Fiscal Studies has published research into the effects of the 2010-15 coalition government’s tax and benefits changes, and has found that ‘lower-income working-age households and the very richest have lost the most, while working-age households without children in the upper-middle of the income distribution actually gained from these reforms. … we find that the coalition’s changes have slightly strengthened work incentives. The participation tax rate has, on average, been reduced by 3 percentage points, perhaps a less significant strengthening of incentives than might have been expected given the scale of the coalition’s benefit cuts. However, this average effect disguises considerable variation across the population; indeed, the majority of workers have seen the incentive to increase their earnings weaken, not strengthen, as a result of the coalition’s reforms’. (Stuart Adam, James Browne and William Elming, ‘The Effect of the UK Coalition Government’s Tax and Benefit Changes on Household Incomes and Work Incentives’, Fiscal Studies, vol. 36, no. 3, pp. 375-402, p. 376).

The National Bureau of Economic Research in the USA has published research results: ‘We examine how a positive change in unearned household income affects children’s emotional and behavioral health and personality traits. Our results indicate that there are large beneficial effects of improved household financial wellbeing on children’s emotional and behavioral health and positive personality trait development. Moreover, we find that these effects are most pronounced for children who are lagging behind their peers in these measures before the intervention. Increasing household incomes reduce differences across adolescents with different levels of initial emotional-behavioral symptoms and personality traits.’ http://www.nber.org/papers/w21562.pdf

Compass has published a paper by Michael Orton entitled Secure and Free: 10 foundations for a flourishing nation: ‘What is evident is not a lack of suggestions but a lack of consensus. For example, there are strong advocates of an unconditional universal Citizen’s Income while others express preference for contribution based entitlements. Decent living standards for disabled people depend on adequate support for the costs associated with disability but there are differences in the importance
given to public services versus individual income measures, or prioritising immediate issues such as the bedroom tax over longer-term changes to Universal Credit and the tax system more generally. For example, The Good Right – drawing on work by the Resolution Foundation - argue that a better use of limited funds would be to increase the work allowances within Universal Credit rather than raise the basic threshold for paying income tax (85 per cent of the benefit of which accrues to the 50 per cent highest earners). The Policy Network calls for a new generation of social investment, building on previous approaches aimed at investing in capabilities and skills to equip people in the face of labour market change but applicable more broadly too. A wide range of groups is calling for an independent review of the sanctions regime. To move beyond what have already been noted as angry and fruitless debates, consensus building is critical. Rather than put forward a specific proposal, Compass will seek to work with other civil society groups on how to progress this. A starting point of seeking greater security may help provide an analytical and policy development framework that steps away completely from cul-de-sac arguments about welfare, benefits and unfortunate (or undeserving) others, to how we build a comprehensive system across tax, employment and other policy domains, that builds upstream preventative social security for us all.

Agreement on (or improvement of) this Idea would be an important step forward’ (p.20), www.compassonline.org.uk/wp-content/uploads/2015/10/Secure-Free-for-consultation2.pdf

Review article

Robert Page, Clear Blue Water? The Conservative Party and the welfare state since 1940, Policy Press, 2015, 1 84742 986 5, hbk, x + 201 pp, £70

The Conservative Party is again in power, and this time untrammelled by a coalition partner. The 2015 Summer budget has drastically reduced the level at which tax credits will be paid and at the same time has established an enhanced National Minimum Wage ( - it is not a ‘Living Wage’ according to the normal definition of that term). This is a significant shift from redistribution to predistribution, giving the welfare state less work to do. Robert Page’s book is timely because it enables us to locate such modern shifts within the history of the Conservative Party’s relationship with the welfare state: a history that proves to be more diverse than we might at first have thought.

The first chapter of this valuable survey finds a certain amount of consistency in the Conservative tradition, in terms of free markets, minimal government, the inevitability and usefulness of inequality, the importance of social order, the individual’s freedom, and the right to own property. The author then discusses a variety of possible classifications of types of conservatism, and sets the scene for subsequent chapters by outlining the Conservative Party’s contribution to social policy during the first half of the twentieth century.

Subsequent chapters treat the party’s relationship with the welfare state chronologically. By 1950 the party was an active supporter of the level of state provision that had emerged during the previous five years of Labour administration. During the 1950s the One Nation group of MPs emphasised widespread home ownership, an efficient economy, rising living standards, and a welfare state designed to promote opportunity but not equality. Edward Heath, the new party leader in 1965, sought pragmatic, evidence-based policies: but by 1970 both One Nation and neoliberal ideas (such as tax reductions, small government, and the fight against inflation) had become part of the mix that won the party power at the General Election of that year. One of the pragmatic policies attempted was Tax Credits (the genuine article, not the means-tested benefit subsequently called by that name). The scheme would not have included the poorest, either those without employment or those with low numbers of hours of employment, and Page is right to say that the plan was designed to ensure employment incentives and the ‘free functioning of the market’ (p.69). He is also right to say that it was the administrative complexities that sank the scheme. Following the abandonment of tax credits, the Government decided to implement the means-tested Family Income Supplement instead of increasing the value of Family Allowance. Given that the Tax Credits plan was an important moment in social policy history, it is a pity that Page does not give it more than a short paragraph.

The party’s two election defeats in 1974 spelt the end of Heath’s leadership and of the party’s attempt at pragmatic rather than ideological social policy. The future would be with Keith Joseph, the Centre for Policy Studies, Margaret Thatcher, neoliberalism, the pursuit of economic and labour market efficiency, and a generally more negative attitude to the welfare state. Page identifies a renewed emphasis on deserving/undeserving terminology as an important
aspect of the Major Government’s policy narrative following the party’s 1992 election victory. During this period the party took leave of the One Nation, rather pragmatic tradition of the Heath era. In fact, it still existed as a minority interest at the beginning of this period ( - its standard-bearer was David Howells). A mention might have been made of Brandon Rhys Williams MP’s recommendation of a Citizen’s Income scheme to a parliamentary select committee in 1982, which might count as the movement’s last contribution to policy-making. During the party’s time in opposition between 1997 and 2005, attempts to develop a more compassionate approach to the welfare state were quickly snubbed by the leadership: but by 2005 it was clear that a new direction was required, and David Cameron was elected: a ‘moderniser’, determined to shed the ‘nasty party’ image. It worked: and two election victories followed, one delivering a coalition with the Liberal Democrats, and one a majority Conservative government. Page is right to emphasise the roles of the Social Justice Policy Group and the Centre for Social Justice in forming the social policy that has been pursued by these two governments. Iain Duncan Smith had been a failure as leader of the party between 2001 and 2003, but the Group and the Centre were a significant achievement, whatever we might think of the reports and policies that flowed from them. At the heart of the strategy is Universal Credit, which in character belongs to the pragmatic tradition of the Heath era. It has suffered from the same problem as the 1972 tax credit proposals: it is a reorganisation of benefits that requires complex administrative mechanisms – this time complex computerised ones – that anyone who has ever administered social security benefits can see are never likely to work. The index leaves something to be desired ( - the Centre for Social Justice doesn’t get a mention), and so does the copy editing, but this is a thorough and detailed survey that will be of considerable benefit to anyone trying to understand the background to the present government’s social policy agenda. The book is particularly interesting in relation to the Citizen’s Income debate. In relation to every phase of the history recounted, a genuine Citizen’s Income would have fitted nicely into the picture. If ever the Conservative Party wishes to recapture every one of its historic emphases – minimal state interference, the autonomous individual, pragmatism, One Nation, economic efficiency, labour market efficiency – in a single social policy, then a Citizen’s Income scheme could be implemented almost overnight: and it would work. **Book reviews** *Louise Humpage, Policy Change, Public Attitudes and Social Citizenship: Does Neoliberalism Matter?* Policy Press, 2015, 1 84742 965 0, hbk, ix + 288 pp, £75 This thorough and important book by a New Zealand academic studies changing public attitudes to welfare provisions in New Zealand, Australia and United, and, in particular, asks about the detail of changing public attitudes in relation to different governments and different policy fields in the context of a general shift towards ‘neoliberal’ policy, with ‘neoliberalism’ understood as ‘significant cuts/targeting, leading to extensive welfare state retrenchment … small government … public assets sold, shift towards private provision of social services, introduction of user pays … choice and competitiveness … reductions in benefit eligibility/generosity, introduction of conditionality … individuals, with citizens framed as responsible for ensuring their own wellbeing, active citizenship focused on citizen responsibilities, especially participation in paid labour market … (p.26). An introductory chapter sets the agenda by asking whether the public simply ‘rolled over’ and accepted the changing values promulgated by ruling élites; the second chapter, concentrating on New Zealand, studies the growth of neoliberal economic and welfare policies from the late 1970s onwards; chapter 3 reveals public resistance to early phases of neoliberal policy change, but that as different governments moved in the same direction public attitudes became more accepting; and chapter 4 confirms the conclusion that the ‘process of neoliberalisation across three decades … saw the public come to accept some but not all neoliberal arguments about the need for economic reform’ (p.113) [author’s italics]. Chapter 5 charts the shift from ‘welfare’ to ‘workfare’ in the social security field, finds that during the early 1990s the predominant public attitude was that a government had a responsibility for providing a decent standard of living for people without employment, but that during the past twenty years public attitudes have hardened and there is now evidence for neoliberalism’s ‘generally negative impact on public beliefs about the social right to economic and social security … the public rolled over and accepted the need for further social security reform … ’ (p.143).
Chapter 6 shows that public expectations in relation to government provision of healthcare, education, and pensions, has remained steady throughout the period under review, and chapter 7 finds that the continuing popularity of spending on pensions, healthcare and education exists alongside ‘a desire for tax cuts and a relatively weak interest in forms of redistribution despite continuing awareness that income inequality is a significant problem’ (p.209).

The book concludes that, on the whole, the public has ‘(mostly) rolled over’ (p.227), but there are some interesting diversities along the way. Of particular interest might be the fact that recipients of unconditional benefits believe themselves to be legitimate recipients of payments from the government but that those receiving means-tested benefits are not (p.228). The author suggests that ‘such divisions among different types of social security recipients are clearly not conducive to developing a shared sense of solidarity among recipients of government income support that could potentially mobilise them against the social security reforms implemented in both New Zealand and the UK …’ (p.228). Taken with a further conclusion that ‘the public tend to support universal social programmes more than targeted ones because they are visible and proximate to a wider range of citizens’ (p.240), this is a persuasive suggestion that new universal benefits, once implemented, would receive public approval, even if before implementation the public might be wary.

Perhaps the best summary of the conclusions found in this book is that ‘public attitudes remain complex rather than straightforward. Attitudes towards social security and, to a lesser extent, redistribution have progressively hardened, but others have fluctuated’ (p.244). Such simplification of the message is required because this is a complex book, containing a mass of survey and other data, and conclusions are rarely straightforward. The ‘neoliberal discourse’ is certainly a consistent factor, but in different contexts it appears to have quite different effects on public opinion. In the context of the Citizen’s Income debate, the only firm conclusion that we can draw is that until we implement a Citizen’s Income we won’t know how people will feel about it: but having said that, some of the detailed conclusions in this book suggest that the verdict would be favourable.


For these authors, ‘future work’ is something that is happening *and* it is something that we can work towards. Technological change gives workforces and those who manage them choices that previously didn’t exist: and this book is a description of the new possibilities – possibilities already exploited in some workplaces – and a call to action amongst those companies that have so far not embraced the new opportunities available to them. The new possibilities can all be characterised by the term ‘flexibility’, and in order to embrace them companies will need to build flexibility onto their work and management practices.

For instance: the majority of graduates are now women, and many fathers would value greater workplace flexibility so that they can spend more time with their children. ‘Future work’ will be flexible in terms of where work is done and when it is done, and this will better serve the needs of both women and men in the workforce than the eight hour day spent at a single workplace away from home. Making that flexibility a reality now requires companies to build flexibility into the ways in which workers’ time and place of work is managed. Providing such flexibility will increase worker autonomy, to the benefit of both workers and the company, in terms of employee motivation, results achieved, and savings on workplace costs. Case studies prove the point.

Future work will be managed by results and not by adding up the number of hours that employees spend in a particular place:

> Trust people to act as adults, and enabling them to decide the best way to do their job, including the ‘where’ and ‘when’, is the secret of success. (p.18)

The authors recognise the downside of technological change: for instance, the ways in which smartphones can extend work into leisure time, and the impersonality of many call centres: but on the whole they see genuinely flexible working as a positive option for both companies and individuals.

Future work is based on the simple principle that work is an activity that produces a desired result. It is performed to achieve outcomes which contribute to the enterprise that has
engaged the worker, whether as employee or contractor. (p.48)

In this new world of future work, offices are meeting places, not workplaces; and managers learn, adapt, trust, and empower:

Management in the new world of work demands a democratic approach in which managers agree the objectives with individuals, provide the resources, and then trust them to take responsibility for getting on with it. The transformation of work is underway. (p.206)

This book should be read alongside Guy Standing’s *The Precariat*. For every ‘future worker’ who is enjoying their new-found autonomy, work-life balance, and target-driven work, there will be rather more insecure workers spending increasing amounts of time ‘working for work’: that is, looking for work, or preparing for work. In today’s economy, however brilliant the results a worker achieves, the successful, autonomous and flexible worker can next day become the economically insecure jobseeker, moving from short-term unrewarding job to short-term unrewarding job. For all of these workers – both the highly motivated and in-demand ‘future workers’ discussed by Maitland and Thomson, and the increasing number of workers in the precariat - rapid change in work practices, the economy, and society, demand a new and more appropriate social and economic infrastructure if flexibility is to promote motivation and autonomy and not disenchantment and burn-out.

One of the consequences of flexible working is flexible earned incomes: and the problem with this is that financial commitments tend to be rather less flexible. Flexible earned incomes wouldn’t be so much of a problem if every individual had a secure income floor on which they could build their income maintenance strategy. At the moment we don’t have that secure floor.

Maitland and Thomson clearly enjoy writing optimistic books. Another optimistic book could perhaps be titled *Future Society* and could be about the kind of society in which ‘future work’ would be welcomed by all workers, both by those described in *Future Work*, and those described in *The Precariat*. At the heart of *Future Society* would be a Citizen’s Income.


This book puts together some very simple connected ideas: that the economy’s task is to produce what consumers demand; that it is efficient to automate production if that is the cheapest production method; that this destroys jobs, but creates jobs elsewhere; and that individual welfare is the priority, and not jobs. ‘When people complain about the lack of jobs, what they really complain about is the lack of income to buy consumption goods’ (p.15). It might be true that many people derive utility from their jobs, but on the whole people are employed or self-employed in order to earn sufficient money to purchase the goods and services that they wish to consume. ‘It is consumer goods obtained by work, not work by itself, that produce utility. Work is what has to be done in order to consume’ (p.28). The author’s aim is to maximise individual welfare by increasing the number of efficient jobs, and to provide the context for this by maximising free exchange in a context of moral rules and the kinds of social institutions that foster beneficial co-operation.

‘A job is efficient when it embodies a series of exchanges that benefit all parties’ (p.113), including those who consume the products produced. We can agree with this suggestion without agreeing with the author’s position that statutory minimum wages destroy efficient jobs. Evidence from the UK suggests that in industries in which genuine competition does not exist, and in a society that subsidises wages in various ways, the wage does not in fact reflect the marginal productivity of labour, and that statutorily raising the wage rate can bring the wage closer to the marginal product of labour. But we can still agree that efficient jobs can be better than inefficient ones both for the economy and for society.

The book is replete with comprehensible discussions of relevant economic theory: for instance, a digression into wants, needs and utility; discussions of substitution and income effects, and of Pareto optimality; an exploration of exchange, competition and the division of labour as the heart of any economy; and a traditional demolition of the ‘lump of labour’ fallacy ( - someone taking a job is paid the value of their labour and then spends that money on goods and services thus creating jobs, so it is not true that someone taking a job deprives someone else of a job).

There are really two books here. One is an argument for free market capitalism. The author is firmly at the non-Keynesian end of the economics spectrum, and
on the side of unregulated markets, of individual rather than social welfare, and of private sector jobs rather than public sector ones, rather than seeing these distinctions as constituting spectra of context-dependent options. The other is an argument for prioritising individual welfare over jobs. Readers will need to separate these two different books in their minds. The argument for efficient jobs, and for the priority of welfare over jobs, would work just as well at points on the above spectra somewhat further from the more extreme ends occupied by the author. But whatever the reader’s preferred ideological position, the book will provoke thought on the relationships of economics to society, of the individual to society, of ethics to economics, of consumption to production, and of GDP to happiness. About these relationships the reader might come to conclusions different from those reached in the book: but it is still difficult to disagree with the author’s main point that it is not jobs that matter, but rather our ability to satisfy our needs.

Unfortunately there is in this book no suggestion that we don’t need jobs ( - and to that extent the title of the book is somewhat misleading). What is suggested is that

First, public policy should abolish labor-market regulations. Second, the disincentives to work that unemployment insurance and other such government programs generate should be abolished or, at least, substantially reduced, as they distort the incentive to work of both the subsidized individuals and taxpayers who have to finance these transfers. Third, regulations on what consumers can purchase should be broadly abolished, for the goal is that consumers get what they want. (pp 168-9)

This prescription will deliver ‘a flexible labor market [that] will become even more crucial to absorbing technologically displaced people’ (p.166). This might be true, but this still leaves those affected by ‘short term disruptions’ (p.166), by wage reductions, by illness, and by major industries closing down, without the support that they need as they learn new skills and then seek the jobs created by technological change. The author is right that a United States welfare system characterised by farm subsidies and food stamps (p.137) is not the answer, but he does not explore what the answer might be. He might wish to consider a Citizen’s Income as a candidate. This would remove disincentives from the labour market, and it would also have the great virtue that Lemieux would wish to see: Because it would be unconditional and nonwithdrawable, it would promote a free market in labour.


As the title of this book suggests, at its heart is the experience of shame: an experience imposed on certain groups of people by other groups of people. Shame is physically damaging, and, far from incentivising people to seek employment, it can have a seriously debilitating effect. One of the important messages of this book is that ‘treating people with respect is not only a matter of social justice; it is also likely to enhance policy effectiveness’ (p.xi).

The first chapter studies a variety of social contexts around the world and finds connections between experiences of shame, one of which is that ‘conditionality, when imposed within an anti-poverty policy setting, heightens the shame experienced by policy recipients’ (p.12). Evidence offered in chapters on the experiences of benefits recipients in China, South Korea, Norway, Pakistan, and Uganda, back up this conclusion. A picture emerges of public rhetoric that blames the unemployed for not working, and of complexly conditional benefits schemes that encourage shame-inducing self-evaluations and public attitudes.

The chapter on India describes a corrupt and shame-inducing system for distributing grain to the poorest 30% of households. This chapter should be read alongside articles in the *Citizen’s Income Newsletter*, in issue 1 for 2012 and issue 2 for 2013, in which Indian Citizen’s Income pilot projects are reported.

The chapter on the UK charts a long history of attempts to distinguish between the deserving and the undeserving poor, of shame-inducing penalties for those who fail to conform to increasingly onerous benefits conditions, and of increasing government vilification of people without employment. The assumption that personal failure is at the root of poverty has become culturally embedded (p.151), and an increasing reliance on means-tested benefits to support the incomes of people in employment has resulted in a rapid increase in families subject to intrusive and shame-inducing means tests.

The authors of this chapter, Robert Walker and Elaine Chase, suggest that the way back to the kind of social cohesion represented after the Second World War by National Insurance is through a change in the language used by ministers and the media. Whilst this might help, it will surely not solve the problem. Means-testing is inherently stigmatising because it
involves officials asking intrusive questions of one group of people and not of others, and it involves one group of people being subject to a set of conditions not suffered by another group. Only if far fewer people, and preferably none at all, were to be subject to means-testing, would the now culturally-embedded vilifying public rhetoric no longer have a foundation in public policy. The authors recognise that Universal Credit, whilst it will bring the working poor into the same system as the unemployed poor, will increase conditionality (p.189). They ought to have concluded that greater use of universal benefits and reduced means-testing would reduce both stigmatising language and the experience of stigma.

The authors call for policy to be framed, shaped, structured and delivered in ways that take account of our need for dignity. They found that crucial to human dignity is a sense of personal security, a rights-based policy approach to achieve that, and consultation with benefits recipients. The book’s final chapter finds that new conditionalities in both the global South and the global North have introduced new ‘arenas for shaming for low-income respondents’ (p.208). Throughout the book we find that shame-inducing benefits systems are characterised by conditionality in general and by means-testing in particular, so it is rather surprising that the concluding chapters never suggest that a reduction in conditionality and means-testing would reduce the stigma experienced by people with lower incomes. One possible reason for the editors not arriving at this obvious conclusion is the quality of the index, which tells us that ‘means-testing’ is mentioned only four times in the book: once in relation to Norway, once in relation to Pakistan, and twice in relation to South Korea. If all of the incidences had been listed then it might have become clear that means-testing is at the root of both the experience of stigma and the public rhetoric that contributes to it. What is particularly bizarre is that the UK has no entry in the index under ‘means-testing’, and no ‘means-testing’ entry under ‘United Kingdom’, when it is precisely means-testing that much of the UK chapter is about.

This book is a fund of useful evidence in the cause of de-stigmatising global social policy, and we look forward to reading the outcome of the team’s promised further research work. We would encourage the researchers to study the more universalist and therefore less conditional aspects of social policy in the countries in which they are working, the levels of stigma attached to both unconditional and conditional policies, and the options available for the reduction of means-testing.


The agenda is this:

Politicians frequently claim to support liberty and empowerment. Yet governments and political leaders often advocate policies that restrict citizens or seek to persuade them strongly in specific directions. (p.3)

The authors, mainly from the University of Leeds, discuss how UK governments ‘incentivise, discipline or “nudge” populations’ (p.4) in relation to a variety of social policy fields: social security, lone parents, employment, refugees, communities, education, health and social care, drugs, and social housing.

The introductory first chapter asks about the roots of increasing government control – and of increasing press and popular demand for such control – and identifies the tax and social security field as particularly prone to politically-driven control measures applied to the already disadvantaged, and to positive incentivisation for the already advantaged. This theme is pursued in the second chapter, in which Harrison and Hemingway conclude that control mechanisms developed during the 1990s are sufficiently distinctive to require us to speak of a ‘new behaviourism’. In relation to disability, these authors identify ‘the growing governmental preference for incentivising or enforcing behaviour change rather than tackling barriers and economic disadvantage. The capacity to increase surveillance and restriction rests in part on resourcing traditions linked to top-down selectivist methods constructed around individualised concepts of disablement rather than universalistic rights’ (p.37) – and the same point could have been made in relation to lone parents and to people who are sick or without employment.

Chapter 3 shows how the concept of ‘vulnerability’ has been used to justify regulatory practices and not as an indicator of where more social justice is needed.

Then follow the chapters that tackle particular policy fields. Of particular interest to readers of this Newsletter will be chapter 4 on ‘Welfare reform and the valorisation of work: is work really the best form of welfare?’ The author recognises that employment certainly can provide a route out of poverty, criminality, and drug dependency, but rightly identifies a significant difference between the kind of employment incentive represented by the National Minimum Wage and the kind of benefits disincentive
represented by sanctions. The ‘strivers and shirkers’ discourse is criticised for not recognising that we are all welfare dependents, and for devaluing care and voluntary work. On Universal Credit: ‘commentators have questioned whether the reforms will actually increase incentives, reduce poverty, or deliver the “holy grail” of benefit simplification’ (p.62).

Also of particular interest will be chapter 10, ‘Nudged into employment: lone parents and welfare reform’, where current policies are criticised for individualising social risks rather than providing a ‘safety net in order to mitigate against the risks of a lack of supply of jobs’ (p.162). The author, Laura Davies, suggests that what is required is improvement in ‘the availability of decent work, … employment sustainability, and job retention’ (p.165), which will be far from easy in a future labour market characterised by precarious and insecure employment ( - Guy Standing’s *The Precariat* is referenced). In chapter 11 Mark Monaghan shows how incentives to take employment (or rather, disincentives to stay on benefits), alongside a requirement to engage with drug treatment programmes, are expected to deliver recovery from drug dependency. He questions whether this is realistic in the context of the low-paid and low-quality jobs on offer to most people with drug dependency histories.

In her concluding remarks, Teela Sanders finds that government control over behaviour results in social exclusion, that dependency is now assumed to be potentially reprehensible, and that ‘rather than bringing greater freedoms as advocates claim, economic liberal discourses have underpinned a major downward shift in aspects of household empowerment that were once linked especially to possibilities for accessing common resources’ (p.208). Far from a ‘big society’ picking up the pieces, we now have a ‘not-so-big society’ characterised by voluntary organisations with far too few human and financial resources to fulfil the increasingly unmet needs of vulnerable people, and by civil society institutions more fragmented, less empowering, and less inclusive of the poor.

This is a depressing book as it thoroughly exposes a trajectory of disempowerment that appears to be unquestioned by any of our main political parties. More positively, the book is a wake-up call, although unfortunately as the book stands it offers us little to wake up for. What we need now – perhaps from the same authors – is a study of alternative empowering social policies that would be feasible in the situation in which the UK finds itself. The individual empowerment and variety of incentives related to a Citizen’s Income (and the way in which it dispenses with sanctions) should mean that a Citizen’s Income would be at the heart of empowerment strategy required.

**Friedrich L. Sell, The New Economics of Income Distribution.** Edward Elgar, 1 78347 236 9, hbk, xiii + 264 pp, 2015, £80

Not only is inequality of both wealth and income increasing in many countries, including the UK, but interest in inequality and in its causes is also increasing. The question ‘Why is income distributed in the way that it is?’ demands an answer. To respond that the situation is complicated would be an understatement. In order to bring some order to the complexity, Sell looks for equilibria in a variety of contexts: in markets; in bargaining (for instance, between employers and unions); and in political economy – where political actors will fit economic policies to their preferred electorate sectors, and where social consensus can change quite dramatically. To take one example: wealthy countries have over the last century shifted from an equilibrium in which less than a tenth of national income was consumed by taxation to a new equilibrium in which between a third and a half of national income is consumed by taxation (p.8). Sell’s conviction – and it is that – is that as old equilibria dissolve, new ones emerge.

Sell sets off from Thomas Piketty’s *Capital in the Twenty-first Century*. The real rate of return on capital is higher than the overall real growth rate of the economy, so inherited wealth grows, and income growth is lower than the rate of return on capital – but in an ageing population in which there are fewer workers real wages should increase: but then those fewer workers will suffer from the lower pensions generated by pay-as-you-go state pensions and will need to provide pensions for themselves, so their savings rate will increase, thus depleting their incomes and increasing capital accumulation: but now capital is flowing from north to south, thus depleting capital in the north. The further we read in this book, the more complicated and the less predictable the situation appears to be.

Sell shows how the markets in labour and capital relate to income distribution (and he particularly studies the effects of minimum wage policies); he looks for models to describe the ways in which income distribution changes during business cycles; he studies social and industrial trends and patterns; he asks how globalization affects income distribution, and particularly how migration flows move human capital between countries; and he discusses the
influence of such social forces as inequity aversion. He finds that even though public preference is for less inequality, government policies on redistribution have contributed to increasing inequality. One of the main conclusions of the book is that ‘governments have increasingly lost since the beginning of the new millennium their capacity to correct the skewness of personal income distribution according to the preferences of the society’ (p.220). Unfortunately, Sell regards the discussion of taxation and social insurance as ‘public finance’ and not as ‘distributional economics’, and so allocates the subject to his ‘final remarks’ rather than giving it a chapter of its own. This is a pity. It is also a pity that he does not critique the contradiction inherent in the suggestion that countries should ‘improve the targeting and reduce the adverse labour market effects of social spending’ (p.222). If there is a second edition of this book then it would be useful to have Sell a chapter on how different kinds of social security benefits – social insurance, means-tested, and unconditional – affect income distribution. Even better, a book on the subject would be particularly useful. The current book sets out from Thomas Piketty’s significant book Capital. The next book could set out from Tony Atkinson’s equally important Inequality.

This book ought to have a health warning attached to it. It assumes at least a first degree level of understanding of economic concepts and mathematics, and in places a master’s degree level, and anyone without such prior understanding will struggle to understand much of the book: but for anyone with such an understanding the book is an absorbing read. It ought to be prescribed as a required text for anyone embarking on a research degree in macroeconomics or welfare economics.

There are some errors in the text ( - on page 3 Piketty’s book is called Capitalism rather than Capital), the index is seriously deficient (numerous important concepts, such as ‘bargaining’ and ‘equilibrium’, do not receive entries), and there are no lists of tables and figures, which we would expect in a book such as this. Sometimes the discussion might have been developed further. Some of the inadequacies of the Gini coefficient (again, no index entry) are quite rightly explained, but the coefficient is then employed, even though very different cumulative income curves can generate the same Gini coefficient. The Palma (the ratio of the income of the highest earning 10% to the income of the lowest earning 40%) could have been employed instead. But these are minor criticisms. This thoroughly researched volume will contribute massively to our understanding of income distribution and of the highly complex roots of inequality, will generate more research on the many linkages that the author has found between different factors, and will generally be the point from which future research in the field sets out.

**Viewpoint**

**The role of public services in Citizen’s Income**

By Andrew Percy

If we are to live peacefully in a prosperous future in which all can make their best contribution to the whole, then every citizen needs to be assured of their safety. Advocates of public services and advocates of a Citizen’s Income share this vision.

There are two schools of supporters for Citizen’s Income. There are those who see Citizen’s Income as an alternative to providing social safety services (for instance, Milton Friedman and Charles Mead in the USA), and there are those of us who see Citizen’s Income as a part of a package that aims to deliver universal social safety. The Citizen’s Income Trust, and LIFE, which I represent, are firmly in the second camp. We know that a social safety net of public services must exist in a civilised society, even with a Citizen’s Income.

So the debate becomes one about what is best delivered as a service, and what is best delivered through a Citizen’s Income. There are existing universal services that we all acknowledge as the best way to achieve the objectives of social safety, such as the NHS and school education. These are examples of universal public services that deliver unconditional, non means tested vital support to every citizen.

So what else can be best delivered as a public service? This is fertile ground for exploration, and one in which everyone’s contributions are helpful and important, so we would welcome feedback to this article.

Here are two examples that can help to inform this debate: transport and information/communications. Getting around and staying in touch are both vital aspects of living in a modern society, so we must accommodate these in any comprehensive approach to delivering universal social safety. Every citizen needs to be able to get to and from their place of work, the doctor’s surgery, the hospital, their friends, their school or college, or to personally observe their democratically elected politicians in action. Modern
human society is also dependent on digital connections, to communicate, say informed, work, and contribute. Given the necessity of enabling every citizen’s access to both transport and communications, what is the best way to do that?

We have to qualify what we mean by the ‘best way’ to achieve our objectives. We are talking about delivering the basic features as a universal right to every citizen, and we are talking about funding these out of taxes. With those elements in mind, we need to keep a keen eye on the efficiency of the delivery, and delivering sufficient quality and quantity to satisfy basic needs. Citizen’s Income is often called ‘basic income’ for the same reason: because the objective is ensure the safety of every citizen, not necessarily the comfort of every citizen. So when we talk about the ‘best way’ to do anything in this context, we mean the most efficient way to achieve the minimum standards that we consider sufficient to deliver the promise of safety to each citizen.

In the case of transport, the ‘best way’ to deliver the basic transport needs of most citizens is to ensure that there is a functional public transport system. It is almost always more cost effective to run a bus schedule than it is to pay every citizen sufficient income to run their own car (although in very dispersed rural communities this is less obvious, and, as is always the case with all attempts to deliver social safety, the practice must be finally determined by local communities, because they are best suited to understand the specific challenges of their environments, and are best suited to adapt the use of tax revenues to achieve the objectives in the most efficient way for their situation.)

Giving to every citizen a free local public transport pass (like the ‘Freedom Pass’ that older and disabled people receive) would deliver the promise of access for all and have significant environmental benefits. It is difficult to put a number on the amount of car miles that would be replaced if we had better public transport and if it was free to use in our local communities, but even if we assume that only 10% of car users would reduce their car use by 10%, that still means 3,100,000,000 fewer car miles driven each year in the UK. That is one million tons of greenhouse gasses.

Keeping citizens connected in today’s society is vital personally, commercially, and democratically. And increasingly, mobile devices like smartphones and tablets are both the preferred means of communicating and the means with the widest reach. Data networks are also taking over from voice-phone networks, and now voice calls are easily carried over internet connections. So ensuring that every citizen has access to basic internet services would help to ensure that everyone remains connected to each other and wider society.

We could give to each individual a cash allowance to buy their own service, but an alternative would be to offer to each provider (BT, O2, EE, TalkTalk, etc) a fixed amount for every citizen they sign up. Each provider would compete to offer their best package of services for this basic fee, and citizens would be free to pick the provider of their choice. The service would effectively be uncancellable, because there would be no bill to manage or pay - the provider would simply submit a list of citizens to the government and receive payment directly. Citizens could sign up to add extra services on top, for which they would pay extra, but even if they failed to pay that bill the provider would always be obliged to continue at least the basic services. We would get the benefit of bulk buying to reduce costs and increase service levels, we would experience the simplicity of bill-free services, and we would keep the advantage of competition between providers.

At LIFE we feel that the best way to deliver the essential services of local transport and communications is through free public transport passes and free basic communications services. They would be cheaper than distributing cash, they would be irrevocable, and they would deliver on the promise of social safety for all.

We would welcome discussion on the right balance between public services and Citizen’s Income.

For further information, see www.uklife.org

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