

Basic Income Security

a constitutional right for all Scotland's citizens





Basic Income Security: a constitutional right for all Scotland's citizens

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on behalf of the Scottish Campaign for a Fair Society

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Preface

We wish to acknowledge at the outset that the current terms of reference of the Expert Working Group on Welfare are limited and restrictive.

Specifically:

- A focus on **expenditure alone**, ignoring the links between tax and benefits, ignores the possibilities for income adjustment that we will discuss here.
- Similarly, focusing on **people of working age**, while at the same time worrying about the demographic 'burden', ignores the opportunity to link tax, benefits AND pensions, to adopt a truly 'whole of life' approach.
- We also believe it is possible to make a stronger case for the **long term fiscal sustainability** of a new welfare system by making hypothecation, rather than borrowing, central to its financial underpinning; this type of "insured" approach to the issue is entirely feasible in an independent or more fiscally autonomous Scotland that aim to achieve a **basic income** for all.

Much of what follows in this submission, therefore, envisages the Scottish government reframing the challenge for the years ahead. The flaws in the current system are deep and cannot be resolved by continuing to work within the current Westminster-defined system. It is time to move away from a 'benefits model' which is not fit for the twenty-first century. Whether in the context of Scottish independence or increased fiscal autonomy, now is the time to identify the advantages of a radically different approach.

It is time to move away from the undue complexities and weaknesses of the current UK benefits system that has developed in ad hoc and piecemeal fashion since WWII. It is time to reject the increased poverty, stigmatisation and dependency inherent to the programme of welfare 'reforms' being undertaken by the current UK Government.

Our main argument is set out in the body of this report. We have also answered the specific questions asked by the *Expert Working Group on Welfare* in the **Appendix** to this paper.

Introduction

This submission is from the *Scottish Campaign for a Fair Society* and *The Centre for Welfare Reform*. It builds on our earlier submission to the *Expert Working Group on Welfare*.

A newly independent or more fiscally autonomous Scotland will have a major opportunity to adopt a radical approach to the design and delivery of income security. Scotland can rethink the current tax-benefit system and promote true citizenship:

- Simplify benefits so that entitlements are clear, fair, easy to access and easy to use
- Strengthen incentives to earn, save, strengthen the family or improve our skills
- Promote responsibility and contribution, encouraging citizens to pay taxes and support each other

To this end, the *Scottish Campaign for a Fair Society* and *The Centre for Welfare Reform* recommend that an independent or more fiscally autonomous Scotland should design its welfare system to achieve **Basic Income Security** as a constitutional right for all its citizens.

Basic Income Security offers Scotland:

- An **integrated tax-benefit system** - ending the shame and stigma associated with out-of-work benefits
- A **universal and sustainable system** that helps all the citizens of Scotland identify their common stake in a system of income security
- A system that **reduces income inequality** while offering good incentives for earning, saving and building social capital

Basic Income Security requires:

1. **Integration** of tax and benefits
2. **Pro-family** approach to tax and benefits, supporting families in all their forms
3. **Simplified** tax and benefit calculations (into one set of questions)
4. **Security** by means of universal, non-means-tested, entitlement
5. **Fair rates of taxation**, removing extreme taxes on the poorest

6. **Human rights**, embedded in a new constitution for Scotland
7. **Public committee** to shape core entitlements, open to submission and scrutiny

In the sections below we outline these ideas, explain why they will be helpful and why the welfare system needs to be changed. The idea of a **basic income** is central to our proposal. It is a common belief that a **basic income** system - while attractive - is unaffordable. But this is false.

In fact the current system has been heading towards a **basic income system** for many years - albeit, in a clumsy, costly and incoherent way. It is quite possible to go further and to make such a system both coherent and sustainable. In fact a **basic income** is not just fair - it is the key to creating a modern, robust and creative economy for Scotland in the years ahead.

In summary our proposal is this:

Each citizen will be entitled to a basic income that is sufficient to avoid poverty, and each will contribute to the community's capacity to provide for this income by paying a clear and fair level of taxation on any income over and above this minimum.

1. How Basic Income Security Works

Basic Income Security is an important idea which would radically change the nature of income security and the rights of citizens in Scotland. It is the key to modernising Scotland's economy and the structure of the welfare state in order to enhance citizenship, family and community - the building blocks of a fair society.

1.1 Integration of tax and benefits

Currently the major UK tax systems are organised and administered by the Inland Revenue, through Her Majesty's Revenue & Customs (HMRC). The main UK system for giving people benefits (including pensions) is the Department of Work & Pensions (DWP). There are also various other taxes and benefits scattered through the workings of other Government departments and local Government.

The integration of the tax and benefit systems into one coherent system has several advantages:

- The stigma of the benefit system is reduced; all citizens obtain their entitlements through one system; it is clear that the wealthy are also benefiting from one universal system.
- The incoherence of the tax and benefit systems is engineered-out to create better incentives for low earners.
- The administration of the tax-benefit system becomes more efficient.

It is not assumed that all taxes can, or should be, simplified, or that all taxes should be based upon income. There are other uses for taxation beyond providing income security, and other roles for taxes beyond simply providing public funds. Taxes on income are, however, a very large part of the current UK system and other taxes (e.g. VAT) are also significantly correlated with income (although they target the poor, as against the rich).

1.2 Supportive of family life

Currently the tax system pays no attention to whether or not you are in a family, whereas the benefit system tends to start with the assumption that families are there to provide free support. The net effect of both systems is thus to put families at a disadvantage. People who rely on benefits find themselves losing income when they form families. Those who are better-off are given no encouragement to spend time with their families - instead the presumption is that it is best if everyone is working as long as possible. This atomistic approach damages the fabric of society.

A unified system would need a unified taxonomy. There are two options, both of which would be an improvement on the current UK system:

- **Option One** - Define entitlements for the citizen and take no account of family circumstances. This would probably have the net effect of encouraging people to build stronger families, as resources shared within families are likely to go further than resources spent by lone individuals.
- **Option Two** - Treat the household or family as the basic item of the system. This is more complex and more dependent upon the way in which calculations of family size and any other relevant factors are weighted. It also raises questions of gender and sexual orientation. It could be argued, however, that the family (in all its forms) is the real social bedrock and so a system that took families seriously could also have advantages.

Both systems are pro-family, but whichever system is adopted will need to respect and support family life and, in particular, **the needs of women**. A pro-family approach has several advantages:

- It recognises more effectively the value of the family in providing care and support to citizens in childhood, old age and in conditions of ill health or disability.
- It provides opportunities to shift more resources into the direct control of women.
- It creates a consistent approach to agreeing how we identify and count families.

This does not mean that single people would have no obligations or rights. Clearly, they too must be entitled to a **basic income** and, in such a system, a person living alone, in a household of one, would be treated as the 'core family'. The system should start, however, with the presumption that family life is a

fundamental building block for community life, and must be particularly careful to ensure that not to create significant disincentives for family life.

On balance our preference is for **Option One** - a citizen-based basic income - but with a duty to examine the impact on families being central to the on-going scrutiny of the system.

1.3 Simplified tax and benefit calculations

The tax and benefit system has evolved into a highly complex system, with 137 discrete benefits or benefit rates and at least 27 different forms of taxation. At the heart, however, of a reformed system there must be a means of calculating how much someone needs and how much someone owes. There is no reason why this calculation should not be undertaken just once (and not repeatedly as at present), focusing on: income, age and impairments (if any) [or, as in Option Two: family size, age of family].

A system adopting a **one calculation principle** would be:

- Much simpler to administer;
- Much more focused in its scrutiny of fair levels of entitlement and contribution;
- Able to eradicate poverty traps that occur from linked benefits; and
- Much more reliable and less subject to complaint.

Although it is true that family circumstances change over time, and that these changes might need to be tracked [particularly in Option Two], this is a problem that already exists in the present system, and is made worse by that system's repetitive complexity. One of the major problems of the current system is that the poorest in society are expected to alert the DWP of minor changes in family circumstances, while many other parts of the current system, e.g. tax credits, are highly vulnerable to changes that are picked up too late and cause delay, embarrassment or debt. It would be much better to normalise reporting of household status within one simplified system.

One of the striking injustices of the current system is that some of the poorest people pay too much income tax as they take jobs using PAYE, pay tax and then find they, unlike the better-off, cannot effectively reclaim that tax. These kind of injustices must be eliminated (Duffy, 2013a).

1.4 Basic income security for all

In the current set of UK arrangements there is already a de facto commitment to ensuring that no one is left without income. This commitment is framed, however, in such a way that those who are seen as 'benefit dependent' are stigmatised and their right to income security is deemed questionable.

On the other hand, poverty is also defined in a way that is relative and ineradicable. We are locked into a system that leaves far too many people far too poor, and the main solutions championed by political parties never come close to addressing this central issue.

Basic Income Security means defining a level of income that no individual (or family) should be without; then ensuring that no individual (or family), irrespective of income or other eligibility criteria, is allowed to go below that level. This basic income level can then become the basis for calculating a fundamental level of benefit income which is defined as a universal entitlement, and provided by the community to all tax payers. This approach sits well with the current Scottish Government's commitment to universalism, and has several advantages:

- The political commitment to eradicate poverty becomes feasible;
- The approach is universal, not targeted, so all families see themselves as benefiting;
- The income-poverty trap is eliminated;
- A stronger sense of security, encouraging increased risk-taking at all levels.

In the current UK system the least generous rate of income support is £2,780 per year (DWP, 2011b). If this was extended as a benefit to all 60 million people in the UK the total cost would be £169 billion. This is less than the current cost of all pensions and benefits in the UK (£185 billion). In an independent or more fiscally autonomous Scotland, a universal benefit of this type would be of significant assistance to many tax payers, allowing rates of tax to be increased and increasing the current extremely low minimum income to a much more reasonable level (Duffy, 2011).

This simple example demonstrates that a universal basic income security is not a pipe dream, but within the grasp of an independent or more fiscally autonomous Scotland.

1.5 Better incentives for the poorest

Negative taxes (benefit reductions) or means-tests are hidden within the benefit system. **Basic Income Security** means increased transparency and fairer rates of tax. Transparency is increased by eradicating means-testing from the calculation of the basic entitlement. Everyone contributes to the system by paying a fair and transparent rate of tax on top of their basic income.

This has several advantages:

- Everyone understands their contribution to providing a guaranteed income for the whole community;
- Extreme marginal taxes paid by the poorest (and the subsequent poverty traps) are eradicated;
- The wealthiest would also see themselves as part of a demonstrably fairer system and show more commitment to mutual contribution.

The current system is not flat or progressive, but somewhat U-shaped (see Figure 1). The poorest and then the wealthiest pay the highest rates of marginal tax. It is hard to imagine a more unfair tax system than the UK system:

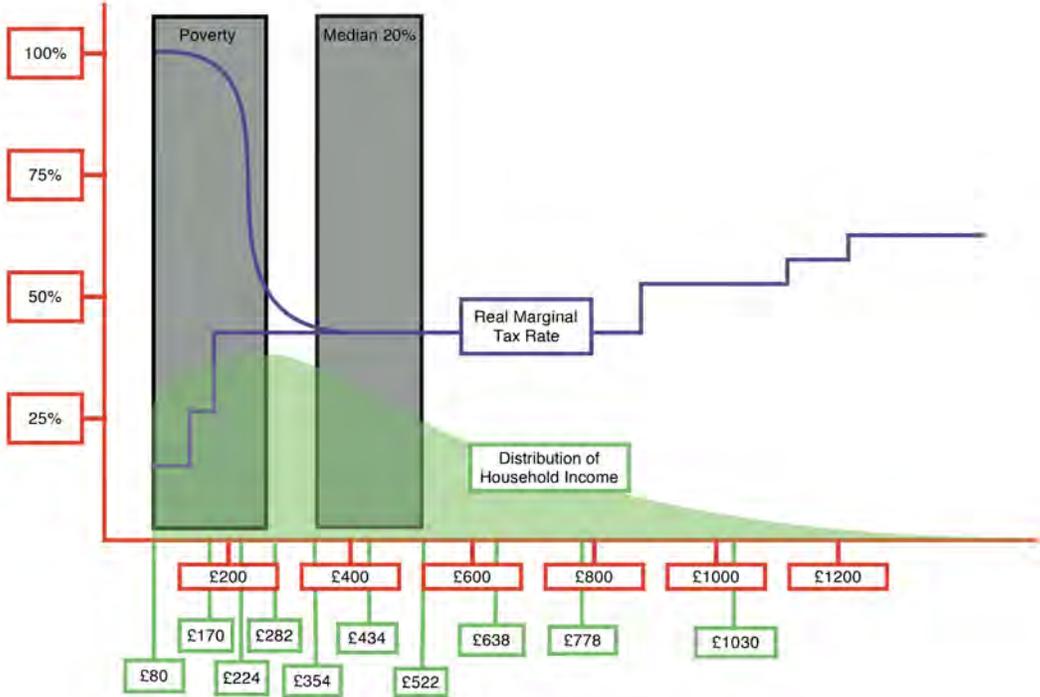


Figure 1: The U-Shaped Marginal Tax Curve

1.6 Embedded in the constitution

The rights to a **basic income** and fair taxes are fundamental and need to be protected from short-term partisan political interference. We need constitutional protections to ensure:

- It becomes more difficult for political parties to try to advantage one group or to disadvantage another, in order to achieve electoral advantage.
- Individuals can claim protection from the courts if treated unfairly by the system.
- Fundamental changes require more than a minor shift in public opinion.

It is interesting to note that while the UK state currently controls approximately 50% of GDP, there are no significant constitutional guarantees for citizens about how their social rights and duties are defined or respected. Instead, welfare systems have become subject to a process of political pandering to key sections of the electorate.

Constitutional guarantees are an important form of self-discipline for the welfare state, and the Scottish Government's commitment to "a modern written constitution that embodies the values of the nation, secures the rights of citizens, provides a clear distinction between the state and the Government of the day" (*Scotland's Future*, 2013) sets the context in which these might be achieved.

1.7 Public committee to define entitlements

The calculation of a basic income and a fair tax level will need to be adjusted in the light of changing circumstances and information about its impact on society. Conclusions about the correct criteria (and their weighting) will require fine judgments that can only be made by human beings deliberating together and then making a decision.

Such decisions are best made by an independent committee, allowing for submissions to be made by different sectors in society and for their discussions and final decision to be subject to public scrutiny. This could work in a similar manner to the *Low Pay Commission*.

2. The Need for Basic Income Security

Some of the reasons why **Basic Income Security** is attractive have been indicated above, but demand more explanation. This is best done by exploring the more holistic case for welfare reform. Four main arguments presented for making this fundamental change to our system are:

- **Fairness** - The principal unfairness of the current system is that it enmeshes millions of people in a dependency relationship with the state in which people find that their income security depends upon not earning, not saving, not building their family and not making the best use of their talents.
- **Rationality** - The current system is unduly complex and opaque, serving not only to erode transparency and a reasonable sense of entitlement, but also making it difficult to test-out whether, and to what degree, incentives can be reshaped.
- **Economics** - By locking millions of people into benefit dependency, the current system is inherently inefficient. It reduces the level of labour, skill and energy available to the whole economy and creates a disincentive to productive effort for the poorest and the richest. It is also a highly wasteful and inefficient system.
- **Society** - Systems of social welfare need to adapt to changing social circumstances; the structures upon which the post-war welfare settlement were based have been eroded, partly by factors driven by the welfare state itself and partly by external factors, like globalisation and increasingly liberal labour laws; the modern welfare state needs to be redesigned to reflect the risks and opportunities of a new social context.

2.1 The argument from fairness

A fair society is one that **never loses sight of the interests of those who are in danger of exploitation or who are suffering**. The current UK welfare system fails the test of fairness because it does not help those who are poorest make the best of their own lives. Instead of giving greatest consideration to those who are weakest, the system locks them into poverty and damages their ability to do the best they can for themselves. A better system would start with a broader conception of the capabilities that underpin a good life and it would be more sensitive to providing the right support and incentives necessary for self-development and stronger communities.

The best way of understanding the injustice at the centre of the current UK system of income security (benefits, pensions and tax) is, paradoxically, to realise that money alone is not the key to a successful life (Sen, 2009). Money is only one means for achieving a better life, and we can identify at least five broader categories, each of which is essential to the creation of a good life.

We might think of these five elements as **real wealth**, the resources necessary to construct a positive and meaningful life (Murray, 2010):

- **Gifts** - skills, strengths, interests and even needs: each individual has their unique gifts, and a good human life consists in the sharing and development of these gifts - whether they are great or small
- **People** - family, friends, peers and colleagues: human flourishing is impossible in isolation, instead we develop through our relationships with others - especially relationships of love
- **Community** - associations, organisations, structures, government, civil society and local democracy: our ability to use our gifts is dependent upon our access to the opportunities available within our communities
- **Assets** - money, housing, time and energy: we need sufficient resources, under our own control, so that we can build a good life for ourselves (Snow, 1994)
- **Spirit** - hopefulness, resilience or good mental health

The Chief Medical Officer for Scotland puts it this way:

Every community has assets... the collective resources which individuals and communities have at their disposal, which protect against negative health outcomes and promote health status. These assets can be social, financial, physical,

environmental, or human resources, for example, employment, education and supportive social networks.

...If asset based approaches are to be implemented, there needs to be a rebalancing between directly meeting needs of people and communities and **nurturing their strengths and resources.**" [Harry Burns *Assets for Health in Co-production of Health and Wellbeing in Scotland* (2013)]

Fundamentally, it is our ability to shape our life, to use all the dimensions of our real wealth to develop a life worth living, that will shape the life we lead (Vidyarathi & Wilson, 2008). Hope is essential to the human spirit.

This model reminds us that if our primary concern in building a just society is the **quality of people's lives** then we will only be interested in money as one aspect of real wealth. It is not just money: it is the exercise of our talents, development of relationships and engagement with community that is necessary for human development.

So when examining our welfare arrangements it is not the size of public spending or even the level of a **basic income**, on its own, that should concern us. It is the way in which these social arrangements provide the necessary incentives and supports for personal and social development.

William Beveridge, the architect of the welfare state in the UK, recognised this clearly:

The State should offer security for service and contribution. The State in organising security **should not stifle incentive, opportunity, responsibility**; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.

[William Beveridge, *Social Insurance and Allied Services*, p.6]

Beveridge recognised the challenge. However, the way that the system has evolved has however led to a situation where people, gifts, spirit, community, assets and incentives are not just weak, they are often deeply perverse. Each aspect of our real wealth is put at peril when we become dependent upon the welfare system.

For many people the welfare system becomes a **Poverty Net** - a mesh of interlocking taxes and benefits, holding people in poverty (Duffy, 2010b). This poverty is not just poverty of income: for many it is a poverty of relationships,

capacity and community. Many people find themselves isolated, vulnerable and excluded from community life (including many people who would not consider themselves 'poor'). This broad ranging poverty is not just unfair, it damages the human spirit itself.

This is not the fault of welfare, or of social security itself, but of its design. The **welfare state is both good and necessary**: we are dependent beings and we need a system of collective income security. Welfare is not the problem; the problem is the badly designed welfare state.

The idea of a **Poverty Net** is useful because it reminds us that the better known term poverty trap is too simplistic. The **Poverty Net** is made up of a range of different benefits and taxes - although often those benefits come as services and often those taxes are hidden within 'benefit reduction rates' or charges or other forms of 'means-testing' (see Figure 2):

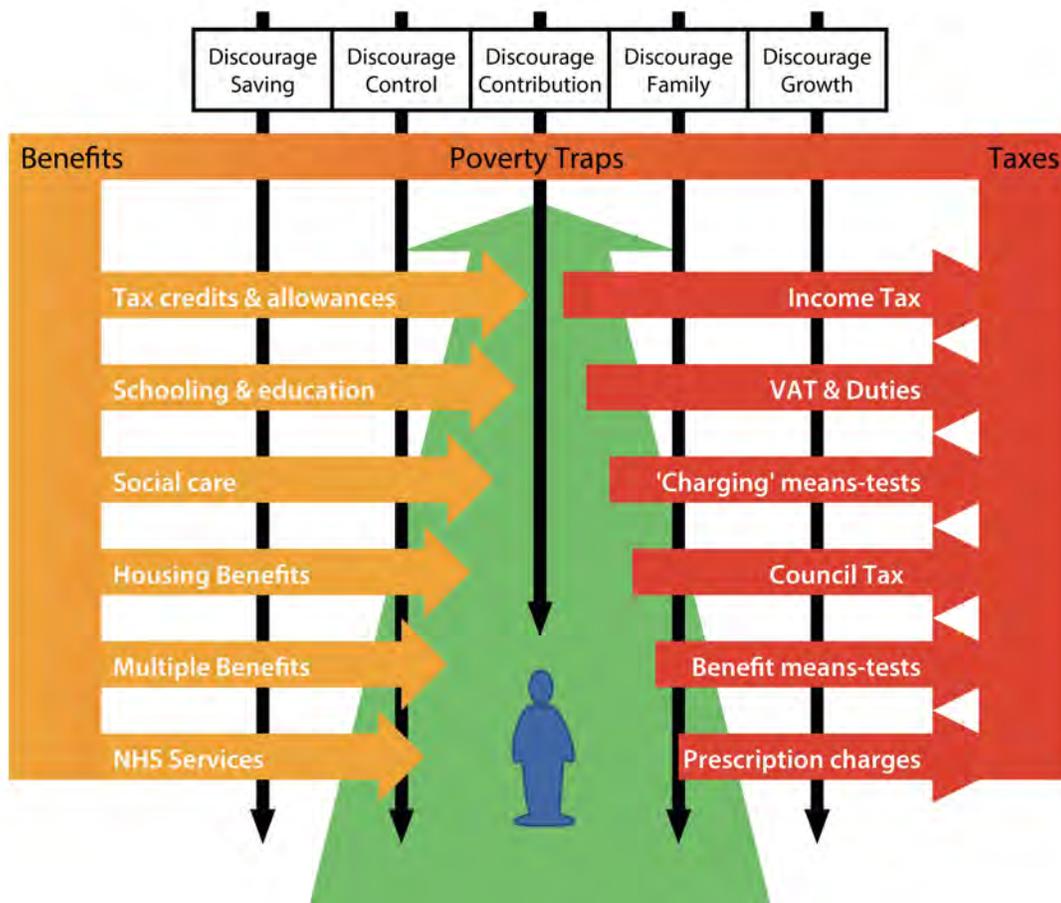


Figure 2: The Poverty Net

The most well-known poverty trap is the income-poverty trap. For example, in the UK in 2011, a young woman relying on income support would be entitled to £2,780 per year. After earning £5 in a week each pound that she earns must be taken, pound for pound, from her benefits. This means she is paying a marginal tax rate of 100% (DWP, 2011b). In other words, she must pay everything she earns back to the Government.

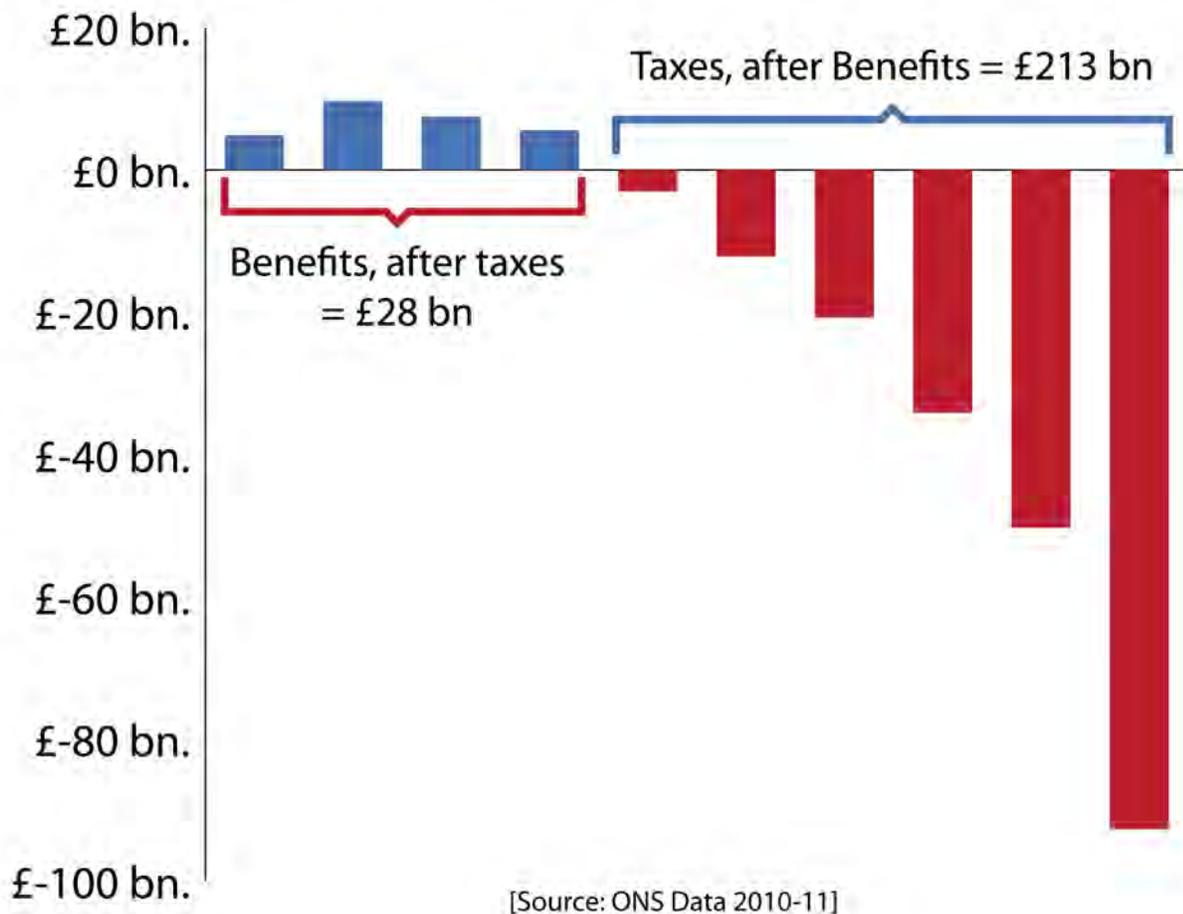


Figure 3: The Net Impact of Benefits and Taxes

The figure above is based on data published by the UK Government on the net effect of benefits and taxes for households. Households vary in size, but on average contain nearly 3 people. As the chart shows, 40% of households see their net incomes increase after benefits and taxes - but only by a very modest amount.

The overall positive adjustment for the 40% of households who do see a net improvement is only £28 billion (only 13% of all benefits paid out, about 5% of Government spending and about 2.5% of GDP). The reason that this is possible is that **benefit recipients are also tax payers** - so much so that the benefit system hardly benefits them at all. Almost all benefits are paid back as taxes.

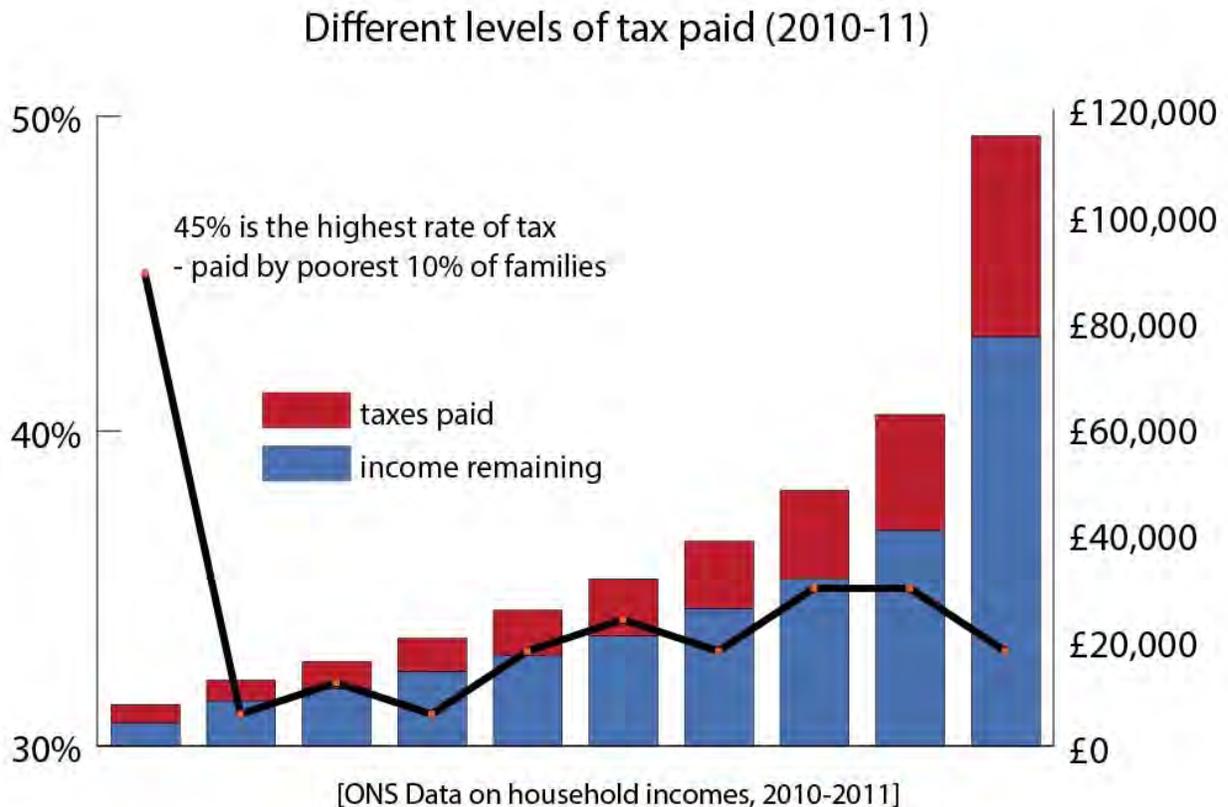


Figure 4: Tax Levels Faced by Different Deciles

Figure 4 above indicates that for the poorest 10% of households average incomes after tax are little more than £3,500 per year. This is very low indeed. Moreover, the poorest 10% of households do not simply face extreme marginal tax rates, but also pay more tax as a percentage of their income (45%) than any other group (Office of National Statistics, 2009). Yet, the income-poverty trap is only one of the many different, complex and interlocking poverty traps that make up the Poverty Net. It has been observed by many critics of the current system that this extreme marginal tax rate may be creating a significant disincentive to work (Economic Dependency Working Group, 2009).

It is estimated that in total, more than 600,000 people could face a Participation Tax Rate in excess of 90% – that is more than 90% of their gross earnings are lost through tax and withdrawn benefits. This measure does not take account of in-work costs such as travel, which can easily wipe out meagre financial gains (*21st Century Welfare*, p.11).

The DWP itself gives the following example that shows how as earnings increase, income hardly increases:

In this example, based on current benefit and tax rates, a couple with a single earner and two children sees a Marginal Deduction Rate of 95.5% on earnings between £126 and £218. This means that someone at the National Minimum Wage would be less than £7 per week better off if they worked 16 extra hours and earned an extra £92 (an effective wage rate of 44p per hour). [*21st Century Welfare*, p.11]

Moreover, it is possible that this could be doubly damaging, not only reducing opportunities for the individual, but also reducing the individual's contribution to the whole community. Such systems make the poor poorer, but diminish everyone else into the bargain.

For many people relying on benefits, total incomes are not quite as low as £2,780. Many people are entitled to other benefits or tax credits. Different benefits have different rules and different tax rates; and some benefits are linked to other benefits. The impact of these additional benefits, however, has been to maintain very high tax rates and create even more complexity and confusion for UK citizens.

First, we have a wide range of different taxation systems, some generally applying to all citizens, and some that are only faced by people who need extra help (Adam & Browne, 2009). The most important of these are taxes on income and taxes on sales.

There are also many other hidden taxes or taxes that are disguised as means-testing. For example, should you need extra help as you get older and frailer you will find that you will have to pay an extra tax, the care tax, built into the 'means-testing' or charging system for adult social care. In other words there is a hidden tax that is specifically focused on people who need extra help and support. These forms of **double-taxation** seem particularly unjust as they target those who already need extra support. They represent a super-tax on disabled people.

Second, we have a similarly wide range of different benefits, with over 100 distinct benefit rates in the Department of Work and Pensions formal system of benefits (O’Dea et al. 2009); but many other ‘benefits’ are delivered by other systems:

- tax credits and personal allowances, which are part of the Inland Revenue System;
- benefits delivered as services, like healthcare and education;
- benefits such as individual budgets in adult social care, that are intermediate between services and cash benefit and are organised as conditional resource entitlements (Duffy et al. 2009).

The complexity and perversity of this whole system is difficult to fully characterise briefly; these are just a few of its interlocking characteristics:

- Some benefits are **linked to other benefits** (for example Mortgage Interest Relief is available only to people on Income Support.) These conditionally linked benefits can also have the impact of dramatically increasing marginal tax rates: for people can find themselves suddenly losing their linked entitlement when they are no longer entitled to the initial benefit.
- Some benefits are **means-tested**, while others are not. Child Benefit and the State Pension were the most widely recognised non-means-tested benefits (paradoxically this makes the termination by the UK Government of Child Benefit for the rich a very worrying step away from a more universal and simpler system). But even some services considered non-means-tested often include some important elements of means-testing. Some benefits, such as tax credits, are administered through the Inland Revenue system; while others are managed by the Department of Work and Pensions or other Government departments. This not only creates unnecessary complexity it has also led to many people on low incomes developing **debts** to the Inland Revenue (Public Accounts Committee, 2009a)
- Some taxes and benefits are **locally defined**, some nationally and there is no clear logic as to which are local and which are national.

The impact of this complex system is that the income poverty trap that we described above - the extreme levels of marginal taxes faced by the poorest - is only one kind of poverty trap:

- **Gifts** - our skills, strengths and individual capacities are often taxed. There are significant incentives to be treated as unfit for work in our current system as the benefit system tries to target additional resources at people with disabilities, health and mental health problems. Paradoxically trying to penalise those who are deemed ‘fit for work’ creates deeper poverty traps for those who are assessed as ‘unfit for

work'. With the right support, however, we know that many disabled people are willing and able to work. If incentives were right we would not need the undignified spectacle of **the state sorting us into those who are 'fit' or 'unfit' for work.**

- **People** - more important than income to our existence and to our well-being are our relationships, particularly the relationships of love and family that create the conditions for life itself. However, two individuals over the age of 25, both reliant on income support, but thinking of marrying (or living together as a couple), would see their joint income drop from £130.90 to £102.75 (a direct tax on marriage of 22%). They would also be likely to see a **50% cut in their housing benefits and other possible benefits** - so the net taxation on family life is likely to be even greater.
- **Community** - many benefits are so structured that they limit the citizen's access to the wider community. For example, people needing social care may find that care is only made available in day centres or care homes that effectively **segregate them from wider access to civil society.** Choice of education or healthcare is limited to pre-defined options that may not suit individual needs and certainly fail to encourage social innovation. Locally defined benefits are not portable and people may feel unable to move to places they would prefer and which may offer better opportunities.
- **Assets** - it is not just our income that is taxed, we also find that means-testing extends to our **savings** and to the incomes of others in our household. For example, you need to have savings of less than £14,250 in order to be fully eligible for support when you are over 65 and acquire a serious health condition or disability. This leads to many people having to spend or transfer their modest savings to family members in order to maintain or improve their entitlements to social care or enhanced pensions.

The design of the UK welfare state is not only insensitive to its impact on real wealth, but its impact is in general largely negative, dampening incentives for citizens and families - to make the best of their talents, to strengthen family life, to increase contribution and take personal control. Instead the welfare state gives benefits in a way that is demeaning, dispiriting and damaging to human development.

The challenge is to design a system that encourages, or at the very least does not discourage, personal and family growth. **Basic Income Security** attempts this by two very direct measures:

- **A universal, non-means-tested, benefit** - calculated to be sufficient to avoid poverty for all families.
- **A fair rate of tax, payable on all earnings** - that is tax is on income after the universal benefit.

This means that everyone has enough income, to the extent that 'enough' is defined and revised from time to time by the national community. It also means that everyone benefits from this universal benefit, removing at one stroke the stigmatising effect of the concept of 'benefit dependency'.

Basic Income Security solves the problem of benefit dependency by making everyone eligible for this benefit. This model also immediately removes the extreme and unfair taxes that burden the poor in the form of marginal benefit reduction rates. In addition, it makes very clear that it is the responsibility of every family to contribute to the maintenance of this system of income security, each according to their means. A fair tax also creates a clear, fair and progressive system of contribution and ensures that income poverty traps are either excluded, or at least are felt by all members of the community equally.

It is interesting to note that, on this model, as the benefit elements become more generous, and the tax rate higher, the tipping point remains the same. Households that have incomes above this point are net contributors, households below this income are net beneficiaries and the tipping point does not change according to the generosity of different systems. In addition it is also clear that, perhaps surprisingly, there is very little difference in the cost of this proposed scheme compared to the cost of the current UK pension and benefit arrangements.

There is, therefore, a plausible alternative to the current system, a model that would be fairer for several reasons:

- ensuring every family in the community has sufficient income to support citizenship
- providing a clear and public guarantee acknowledged, defined and supported by the national community
- meeting this guarantee places reasonable demands on all citizens

Above all else a welfare system should be fair. The current system is not fair in that it damages the lives of the poorest. **This proposed alternative puts fairness at the heart of its design.**

2.2 The argument from rationality

As the Scottish Government's current consultation on the integration of Health and Social Care by implication suggests, the current welfare system is confusing and complicated in all its aspects. It has developed over time into an elaborate Byzantine structure that no one fully understands.

This is unattractive for many reasons:

1. If citizens do not know what they are entitled to then they are not citizens: instead they are subjects - subject in this case to the remote and **inexplicable** power of a bureaucratic state;
2. If citizens do not know what their responsibilities are then they are not citizens: instead, particularly for those who are expected to contribute significantly, they begin to see the system as a **trick**, a game designed to squeeze as much from them as possible, by the most obscure means;
3. If the system has become too complex even for those running it to understand then we are in an even worse condition: for when the system has become too **opaque** to be managed effectively then even enlightened bureaucratic paternalism becomes impossible.

There is no doubt that the current system of tax and benefits is too complex and lacks clarity. Martin makes the point in the following way:

The DWP issues a total of 14 manuals, with a total of 8,690 pages, to its decision makers to help them to apply DWP benefits. A separate set of four volumes totalling over 1,200 pages covers Housing and Council Tax Benefits, which are primarily the responsibility of local authorities. The Tax Credits manual used by HM Revenue and Customs is a further 260 pages, even though it omits details for many relevant tax concepts which are found in other tax manuals. In addition to these encyclopaedic works is a cornucopia of circulars, news releases and guidance notes issued to professionals and claimants. The underlying legal statutes and statutory instruments make up a vast mass of further material. [David Martin, *Benefit Simplification: how, and why, it must be done*, 2009]

This state of affairs should be repugnant to all who believe themselves to be citizens, people with a real stake in their community. All civilised societies rely upon a shared understanding of the basic economic arrangements that govern economic security and contribution. Clarity is vital to the on-going need to

evaluate, understand and validate any system. When that system is an essential component of the modern democratic state then the need for clarity is a matter of the utmost significance for the well-being of society.

There is one further advantage of introducing clarity into the system, which is that it would make the whole system open to empirical testing. One of the unfortunate side-effects of the current system is that it has become impossible to test and develop the system so that it can more reliably achieve desirable social outcomes. There is certainly much that we do not know about the impact of any changes to the current system:

1. We do not know to what extent **high marginal tax rates on people in poverty** stop them from earning and the degree to which lower marginal rates will increase earnings.
2. We do not know whether a system of **Basic Income Security** would actually lead to more people withdrawing from labour markets or seeking different kinds of work.
3. We do not know what the impact of **fairer taxes** would be on earners at different levels of income.

These and many other uncertainties will persist unless the system is changed to make it possible to test these questions. The complexity of the current system paralyzes rational investigation of possible improvements.

One of the advantages of **Basic Income Security** is that it creates a much clearer foundation for meaningful empirical testing:

- **Poverty** can be redefined and the system can be made more or less generous
- **Family** dimensions can be weighted in different ways along the axes of age, size and disability
- **Tax rates** can also be amended and changed, even altering the average and marginal rates of tax

The argument from rationality provides some further reasons to support at least some elements of the proposed model of **Basic Income Security**:

- creation of a unified tax-benefit system
- simplification of benefits into one calculation, with appropriate weighting
- Clarification of a socially agreed definition of unacceptable poverty

Without these kinds of changes the tax-benefit system will continue to be immune to rational scrutiny and meaningful public debate.

2.3 The argument from economics

Another kind of approach to the tax-benefit system is to ask whether such a system is efficient or economically productive. For many people this is the critical question: will reforms will lead to growth and increased economic activity. As the previous section implied, much of this is an empirical question, hard to test without real systemic change. There are good reasons to believe, however, that the economic impact of **Basic Income Security** would be positive.

The primary economic attraction of the **Basic Income Security** is that it completely removes the income-poverty trap and gives everyone in society the same marginal tax rate and the same incentive to earn. However, in moving to this new system, the overall impact of this change would most likely be:

- to reduce radically the marginal tax rates on the poorest
- to increase mildly the marginal tax rates of middle-earners and better-off

The reason why marginal tax rates are important is that they determine the financial benefit of working an extra hour. It has been plausibly argued for instance that in 1979, when marginal tax rates for high earners were slashed, the impact was not only that high-earners began to earn more but also that high earners began to pay higher levels of overall tax.

Large numbers of people are now 'benefit dependent' or live on incomes just above these benefit levels (DWP, 2008). The current demography of Scotland, as set out in Figure 5, indicates that the working population is only a fraction of the overall population.

Although it may be hard to prove, it seems plausible that many of these households, who are benefit dependent, would seek to earn extra money on top of their benefit income. This would perhaps even include some people who are over 65. While, of course, many of these households include people who have pensions or disabilities, this should not lead us to underestimate the potential for increased economic activity when it begins to be worth people's while to work.

An increased supply of labour into the labour market will increase the overall volume of activity and increase wage flexibility in that market. The sceptic will fear, however, that the other fundamental change that **Basic Income Security** would introduce – through modest income security for all - would have an

opposing impact on the economy: that many people might choose to withdraw from the labour market (at least to some degree). Ultimately this question rests on the degree to which people’s earning behaviour is currently determined by fear of falling into the benefit system and the extent to which a universal system of modest income security would then lead to a radical withdrawal of labour from the market.

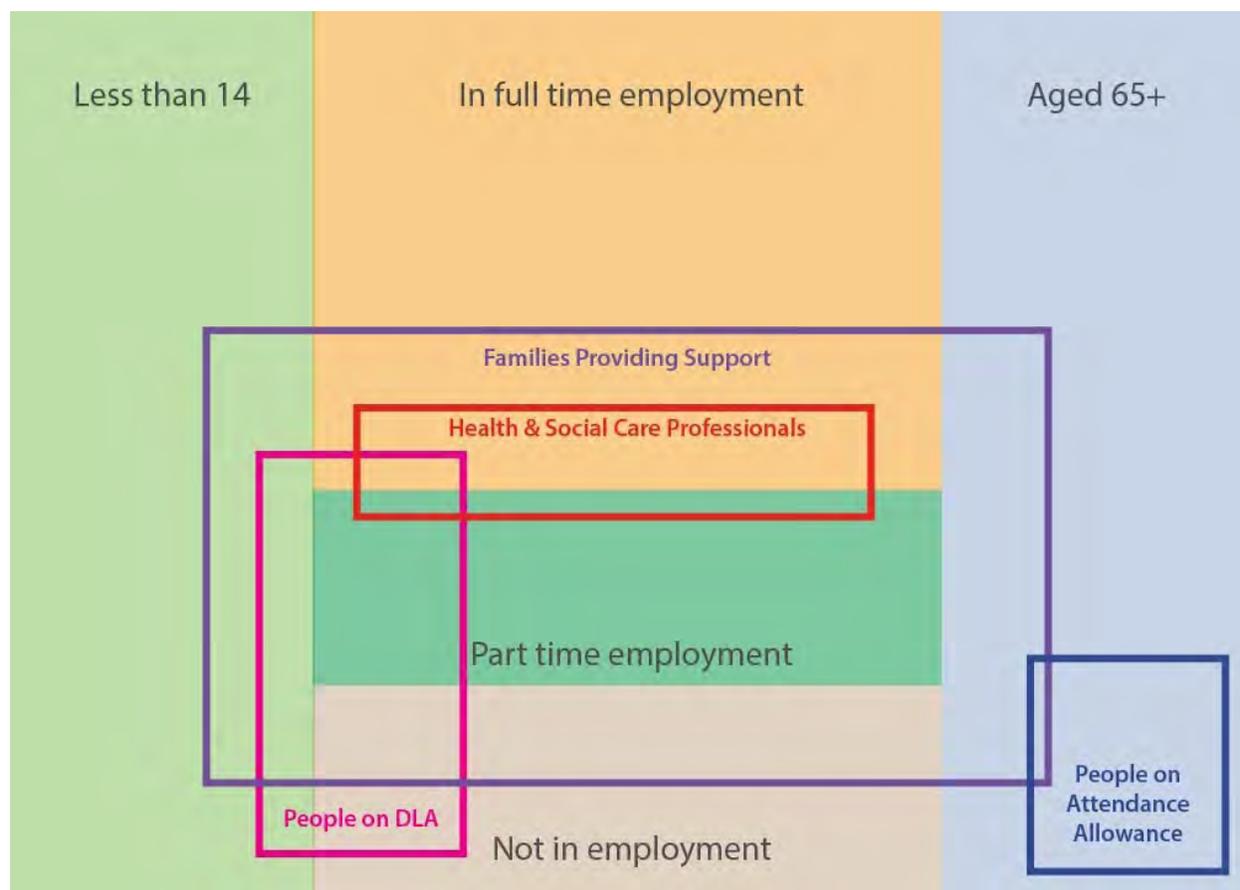


Figure 5: Work in the context of Scottish demography

Again, much of this has not been tested, but at least two things are worth considering. First, if it is true that there would be a significant reduction in economic activity by earners then this is likely to lead to a redistribution of labour towards the poorest. This is hardly an unattractive outcome in a world where millions don’t work, but millions seem to work too much.

The second factor to consider is whether any change that is underpinned by increased income security would in fact lead to increased “pickiness” about the nature of work that people engage in. It seems plausible that the willingness to

work is not primarily driven by fear of the consequences of not working. Most people who can work want to work, and not just for the economic benefits of working. Many people, however, work in jobs that they do not value or which do not seem productive 'to them'.

It may well be that the actual economic impact of **Basic Income Security** would be a shift towards economic activity which is more personally rewarding, in which case we may see more people choosing work that pays less well and fewer people doing activities that seem less enjoyable. Of course the labour market can adjust for this fact by altering relative salaries. This is not an economic problem: instead it is an opportunity for the creation of a more genuinely productive economy, one that does **not use fear of poverty to drive people into less rewarding work**.

Finally, the economic impact of these reforms would be to radically reduce the need for administrators of the current system and to much greater reliability and consistency in tax and benefit decisions. Here are just a few examples of the waste in the tax-benefit system:

- At least £1.5 billion is **over-paid in tax credits** each year to people on low incomes and there is no fair or effective system for reclaiming this money (Public Accounts Committee, 2009a);
- At least £1.8 billion is **overpaid in benefits** each year to people who are dependent upon benefits for their income and there is no reasonable way of reclaiming this money (Public Accounts Committee, 2009b);
- In any reformed system there would only need to be **one IT system** (there are currently 37 in the DWP alone);
- The Department for Work and Pensions and its agencies spend around £2 billion a year to **administer and pay working-age benefits**, Local Authorities spend a further £1 billion to administer Housing Benefit and Council Tax Benefit, and HM Revenue & Customs spends more than £500 million a year. (DWP, 2010)
- Recent changes have also added further costs: the encouragement of low-level fraud inherent in the current system, the costs of monitoring fraud, the administration of sanctions, the payments to Work Programme providers etc.

The complexity and confusion of these systems leads to the situation that Teresa Perchard, Director of Social Policy at Citizen's Advice, put like this in a letter to the Government:

Citizens Advice acknowledges that the £1.5 billion cost of fraud in the benefit system must be recovered, but we are very concerned at the Government's persistent tendency to roll fraud and error figures together. Errors account for the remaining £3.7 billion of the 5.2 billion figure quoted... In the meantime, the £5 billion cost to Government through fraud and error is dwarfed by the **£17 billion of benefits and tax credits that remain unclaimed** every year, because people don't know they are entitled to claim, or because the system is too complicated. [Teresa Perchard, quoted in Duffy & Hyde, 2012]

It is worthwhile looking at these figures in detail. £1.5 billion is actually less than 1% of the cost of the whole benefits system. This is actually a tiny figure and suggests that citizen-fraud is currently negligible. If people don't know that they can claim for £17 billion, however, then this represents some 10% of the total benefit bill (see Figure 6). **A system that has been designed so that the poor do not get what they are entitled to is a fraudulent system.**

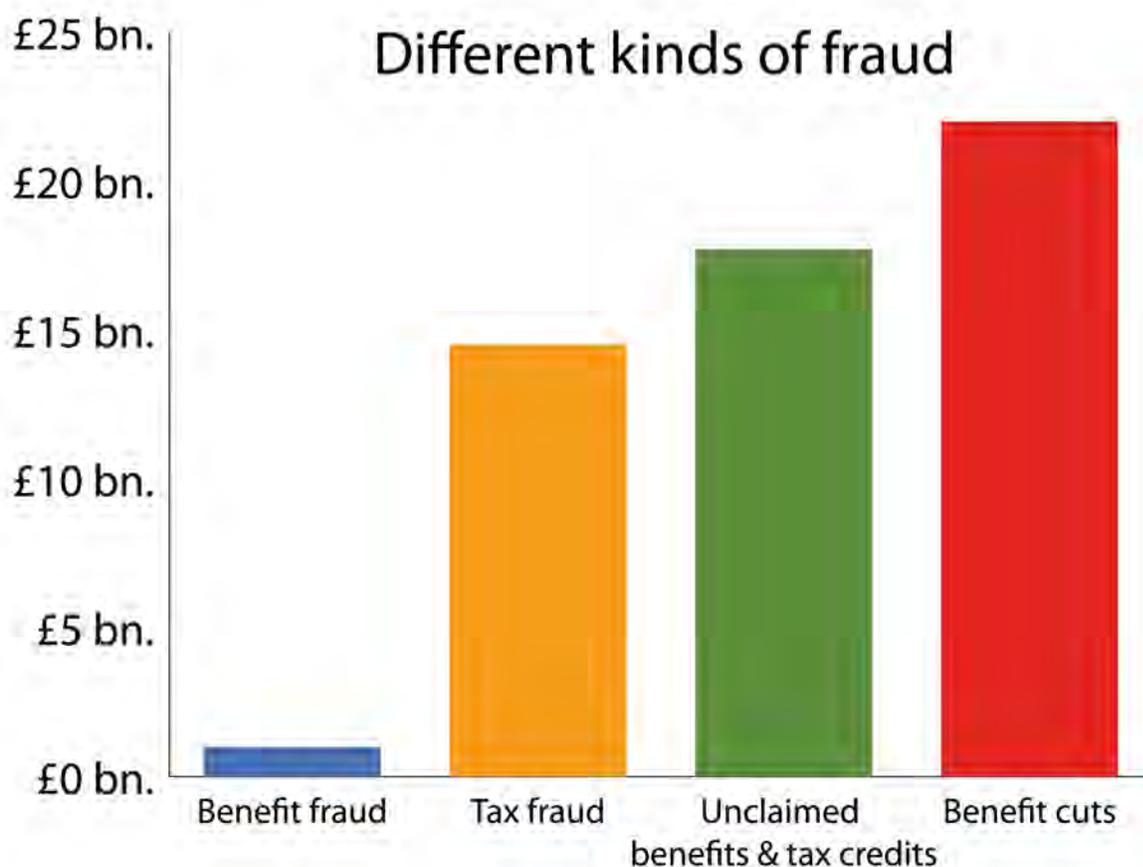


Figure 6 Fraud in context

It is the **poor who are being defrauded**, by the Government, and at eleven times the rate at which citizens defraud the Government.

In contrast, the positive economic case for the type of alternative basic income approach advocated here is powerfully articulated by Danson et al:

The experiences of the Nordic countries demonstrate that, far from universal benefits being unaffordable or not the way forward for competitive economies, the reverse is true. Cohesion and inclusion are the hallmarks of these societies and the promotion and building of social capital and equality are elemental in sustaining their individual and collective prosperity. Universal benefits paid to all carers, the disabled and others at risk of exclusion reduce their dependency and give them the resources to play a fuller role in society. In reality, the opportunity costs of such payments (effectively the taxes to fund the benefits) are low as they impact most strongly on those whose needs are already fulfilled. Indeed, by putting downward pressure on conspicuous consumption of imported goods and services and by diminishing house price inflation, the economy in aggregate is automatically stabilised and the economic cycle dampened.[*The Case for Universalism*, 2012]

In summary then, if one believes that the millions of people who are currently benefit dependent are in fact people who are full of positive capacities just waiting to be unlocked, then the net impact of helping to release those efforts into the economy is likely to be beneficial, both to them and to the whole of society.

2.4 The argument from society

The welfare state was not designed in a vacuum, rather it has evolved to meet social needs, and it was designed in the light of assumptions that reflected the beliefs and practices of those time. It is modern arrogance to believe that earlier societies made no provisions for the care of all their members. Earlier societies often built their provision around the agrarian economy, however, and the nature of production and distribution has changed radically in more modern times.

Production of the basics for life used largely to lie in the hands of those who needed them, and security came both through holding land or being a part of the social fabric around its production. The enormous advantage of technological innovation has been the ability of many fewer people to produce food, clothing and all the many other goods and services we need or want. The enormous disadvantage of technology, and the capitalist society which has grown up around it, is the inherent insecurity that seems to come with industry and the modern business.

We have never been so wealthy, and we have never been so insecure. In the nineteenth and twentieth-centuries this insecurity fuelled revolutions, violent social change, war, eugenics and, finally, the development of the welfare state, as an attempt to reduce this radical insecurity.

Unsurprisingly the design of the welfare state also reflected the conditions and assumptions of its time, including:

- The state can, using macro-economic management (Keynesianism), keep most people in work
- Taxation can be used to provide a modest benefit for those temporarily out of work
- Family structures will exist to provide love and support for men, women and children
- Healthcare and education are best delivered by expert professionals
- Those who can't own their own home will be able to rent a home at an affordable rent
- Many additional benefits (e.g. sickness and pensions) will be delivered by employers

It is interesting to note the many differences of detail that arise as different countries solve the problem of building the welfare state. Some societies, like Japan and the US, gave a much bigger role to business. Other countries, like

France, developed national insurance systems to include payments for healthcare; while others, like Britain, focused on a state-provision model.

But the similarities are even more marked, for all systems have tended to see fundamental security as a combination of (a) protecting overall employment rates in the economy and (b) providing some limited support for those who fall out of employment and into benefits. Some systems seem to be more generous, like the Swedish system, while others seem more austere, like the US system. But all welfare state economies have seen an enormous shift of power and resources towards the state that has no obvious precedence in recorded history. All modern states provide some broad form of insurance to protect citizens from the radical insecurities of modern economies.

Moreover the trend since the early development of the welfare state has been towards increased technological efficiency, combined with increased business insecurity. Furthermore, other social structures - the family, communities and the firm - have all become weaker. This has put further pressure on the state to provide security through the welfare system and growing numbers are now reliant on benefits (Parker, 2009). In addition we also seem to have reached a certain kind of limit to the degree to which the welfare state can grow relative to the size of the whole economy. Since the 1970s there have been on-going efforts to restrict the growth in welfare spending and to limit levels of taxation as a share of overall economic activity.

Some foolishly advocate eliminating the welfare state, as if the underlying need for welfare has somehow mysteriously disappeared. Some foolishly pretend that simply increasing spending on welfare inevitably makes things better. Policy debates have often been reduced to a ridiculously simplified battle of 'more' or 'less'. The fact is that all modern societies need a system of collective economic security in order to counterbalance the kind of radical insecurity that has been created by industrialisation. This fact has not changed.

The creation of the welfare state should be celebrated as a double achievement. First, it put in place new social structures that reduce the vicious impact of poverty and increased social cohesion. Without the modern welfare state we would return to the corrosive poverty and fear that characterised the early part of the twentieth-century.

Second, it tried to make the achievement of social justice an explicit part of our community life, and at first, social justice did improve. The welfare state has now, however, become increasingly ineffective at promoting social justice. In the early twenty-first century certainly the growth in the size of the welfare state, relative to the whole economy, has stopped or slowed since that point (Wilkinson and Pickett, 2010).

The political and economic crises in communist countries that led to the end of the Cold War also seem to be at least partly connected to the problem of hubristic state control - the state believing itself to be competent to control economic life far beyond its actual capacity. Today we are less confident that passing economic control to the state is always the best solution for social and economic problems.

Taleb (2012) has written about the design and evolution of human structures, offering a critique of disinterested top-down planning with its (risk-averse) aim of protecting “fragile” entities from unexpected calamities. The unintended negative consequences are, he argues, more harmful than beneficial. We perhaps need to consider how we might structure a new welfare state supporting a society that is not simply more “robust” or “resilient” but one which in Taleb’s terms is “antifragile”: a welfare state that grows, flourishes and gains strength because it is exposed to risks and stresses and is flexibly adaptable.

There appear to be at least two design principles involved here. Firstly, the best new welfare structure is most likely result from mutual and shared working towards mutual and shared goals. In Taleb’s terms, if those who design and construct a new bridge are themselves required to cross it every day or spend some time living beneath it, the fragility of the bridge is unlikely to be an issue. Secondly, the new system will only continue to maintain itself in an adaptive way over time if it embeds active democracy as widely as possible in its processes to ensure the best outcomes for all through local democracy, democratic practices in all decision-making, and democratic governance.

Basic Income Security is a robust, possibly antifragile, alternative to the current benefits system. It responds to the realities of the twenty-first century by providing security with freedom.

3. Welfare Reform in Scotland

Having outlined **Basic Income Security** and the arguments to support it we will also consider some of the other political, practical and ethical considerations which will influence Scotland's destiny.

3.1 Defining new principles

The Beveridge Report was instrumental in establishing the thinking behind the post-war welfare state in the UK. Unfortunately this means that the ethos, law and structures that underpin the current welfare state are dominated by 1940s thinking and assumptions. The very real prospect of a Scottish state independent of the rest of the UK, or at least more fiscally autonomous than at present, means that now is an auspicious time to engage in the same depth of thinking about the relationship between that state and the individual in the twenty-first century.

For many observers the debate about public services has been an argument between those seeking more public spending and those seeking reductions in public spending. In the last few years, however, there has been a growing awareness of the sterility of this 'more or less' debate, and a renewed focus on deeper questions about the design of the welfare state - the principles that should frame it and the structures by which those principles might be realised.

It should be acknowledged that some of the current thinking in Whitehall is rooted in a similar analysis of the problems of the current system. In particular, the development of Universal Credit is an attempt to move to a radically revised system which will allow for some flexibility in the design of any new system (DWP, 2011). Unfortunately, while some of this analysis of the failings of the current system is valid, the proposed solution will fail. They may succeed in pushing through many of their proposals; but they will fail to redesign the system in a way that is fair, and they will fail to make the UK a better place in which to live.

Their strategy is to:

- Pay private organisations to 'get people back to work' and reward their shareholders with savings from reduction in benefits;
- Reduce the value of the minimum benefit level, so that those in poverty are even poorer;
- Change and simplify the system so that the advantages of work appear to be greater; and
- Target even deeper benefit cuts (or sanctions) on those who do not find work for themselves quickly enough

Even if we hope that the economy will improve and take the optimistic view that employment will increase, we will be left with a system that gives the poor next to nothing - while pretending to be very generous.

The UK is a wealthy society but - according to Wilkinson and Pickett - the UK is the third most unequal developed country in the world. This income inequality is associated with many social problems, including increased crime, mental illness, infant deaths, obesity and early deaths (Wilkinson and Pickett, 2010). The current 'reforms' will simply make society more unequal.

In fact Wilkinson and Pickett argue that the growing size of the welfare state reflects the failure of society to address the deeper problem of income inequality: instead of seeking to reduce inequality when social problems arise, we grow public services. If this is true then it underlines how important it is not simply to resort to increased welfare spending as a solution for every problem. It is also a mistake to be complacent. These social problems will get worse, will increase conflict and may lead to more draconian measures on behalf of powerful groups.

What should be of concern to politicians and citizens alike is that the current Whitehall structural reforms are not underpinned by any clear understanding of the basic expectations, rights and responsibilities that would make such a system explicable. There is a grave risk that the current experiments will become unstuck for lack of public support. The reformers have accepted that the current system sends confused or damaging messages to the poor. Unless, however, there is an attempt to define in clear and understandable terms what the new deal is, it is likely that the current bureaucratic complexity will simply be

replaced with a more dynamic and chaotic complexity (Economic Dependency Working Group, 2009).

Proper reforms must be based on clear, public principles that define rights and responsibilities. More complex and paternalistic micro-management of income and tax levels will simply reinforce confusion and undermine citizenship.

It will also further foster a culture of blame where those who suffer most from a system that they did not create are also blamed for these problems. The recent development of terms such as 'underclass' or 'benefit thief' – or the favoured “shirkers/strivers” dichotomy - should alert us to the dangers of increased social alienation between those who have and those who have not. For example, a recent analysis of terms used on the internet found that, while benefit fraud is 6% of tax fraud, the terms 'benefit fraud/cheat' were used 600% more by news channels than 'tax fraud/cheat' (Duffy, 2013b).

We have started **to blame the poor for poverty.** This is dangerous and stupid.

3.2 Understanding conditionality

Universal Credit - even if it works -will deliver only modest incentive improvements for people in poverty. It is noticeable that the current UK Government has been far more radical in introducing **negative incentives** to encourage people into work: for example, you will lose your Job Seekers Allowance if you do not co-operate.

Negative incentives seem much easier (politically and economically) to build into the welfare system than positive incentives. After all, the negative consequences are only faced by people in poverty themselves – people who end up even poorer than they were because they fail to meet whatever standard for compliance the system sets (many individual cases indicate idiotic judgments by systems that are penalising people unfairly).

If this approach really worked it could, perhaps, be justified as a necessary evil - and it is certainly worth taking some risks to help people into work. But, strangely, it seems we would rather create a negative incentive before creating a positive incentive. This will not only increase poverty for those who ‘don’t behave’, but it will also encourage some disabled people to seek the security of being deemed ‘incapable of work’. As every parent knows - negative disincentives often create very perverse consequences.

As Scotland prepares for the possibility of independence or increased fiscal autonomy it is a good time to think harder about the concept of conditionality and its relationship to our rights and responsibilities. In the political discourse about benefits it has become convenient to talk about conditionality in two slightly contradictory ways:

1. **Logical conditionality** - the fact that there is a necessary link between rights and those duties without which there can be no rights
2. **Contractual conditionality** - the fact that it can be advantageous to make a specific right or entitlement conditional upon some fulfilment of a duty (in this case demonstrating that you really are trying to find work).

It is worth unpicking these two forms of conditionality in some detail because in contemporary political rhetoric there is often a temptation to run these two different ideas together. This leads to moral confusion and poor policy-making.

Logical conditionality is a kind of conditionality - or give and take - which is critical to the existence of our rights: **rights must be matched by duties** in aid of what Aristotle refers to as “the common advantage”. No-one can have a right (negative or positive) without imposing a duty on someone else. But this does not mean that people’s rights must be “matched” by their duties. Different people need different things at different times - different people can contribute in different ways. And **some rights are so fundamental that they must not be lost by any failure to fulfil some set of duties**. We don’t think the rights of the child are conditional upon their fulfilling parental duties (or any other kind of duty).

Nor can we surely think that the right to a minimum income is conditional upon demonstrating a willingness to work. No matter how resistant someone may be to work then (in normal circumstances) we would still feel that the individual has a right to some minimum level of income support.

It may be that we want to claim that someone’s rights have been inflated or that someone’s duties are insufficiently large. It may be that we think the social balance of actual entitlements or the burden of responsibilities (say how the tax-benefit system works) is unfair or unbalanced. This can certainly be the case. But obtaining the correct balance between rights and duties is not achieved by demanding ‘greater conditionality’ - this is a confusion.

If our right to Job Seeker’s Allowance is properly conditional it cannot be because our right to income security is optional. **Income security is an absolutely fundamental right - it is the right to exist**. If we treat JSA as conditional it must be because we don’t think people need it for their income - it must instead only be an extra allowance for job seeking.

Positive Conditionality is a better way to deploy the concept of conditionality. The development of Self-Directed Support (as evidenced in Scotland by the Scottish Government’s Self-Directed Support Act, 2012) is an example of this. Citizens control their own personal budget - on the condition that they use it effectively to meet their needs.

In other words personal budgets are “Conditional Resource Entitlements” (Duffy, Glasby and Waters, 2010). Note, however, an important characteristic of this system and its use of conditionality: it is not the entitlement itself which is conditional. No one loses their budget because they fail to meet their needs effectively - instead what changes is **who is in control of that budget**. Control is

determined on the basis of who is most likely to make good decisions - this is almost always (but not always) the person themselves or their family or friends.

Conditionality is here a tool for making sure that the available money is really used to achieve the intended outcome.

What we have consistently learnt in the use of personal budgets is that the old system systematically **underestimates** the ability of individuals (the poorest and the most disabled) to improve their own circumstances themselves. This suggests that the current welfare system is deeply paternalistic. Given half a chance, and some positive incentives, people themselves quickly outperform the system - making better decisions, improving outcomes and using resources more efficiently.

3.3 Implementing Reform

Simply because a new system is just, rational, economic or even ‘inevitable’ does not, however, make it feasible. Feasibility only arises when the will to reform is combined with a coherent and achievable plan and the ability to communicate that plan in a way most people can understand and accept.

In the UK today some of these conditions seem to exist. There is certainly some political will to bring about change and there is some understanding of the problem. What is much more uncertain is whether the proposed reforms are clear or fair. In fact it seems possible that the current wave of reforms will drive up income inequality, create increased confusion and add to the stigmatisation of the poor.

In fact the reforms seem largely cuts in income and services that target those already most disadvantaged (Duffy 2013d). The largest cuts fall far harder on those in greatest need (Figure 7):

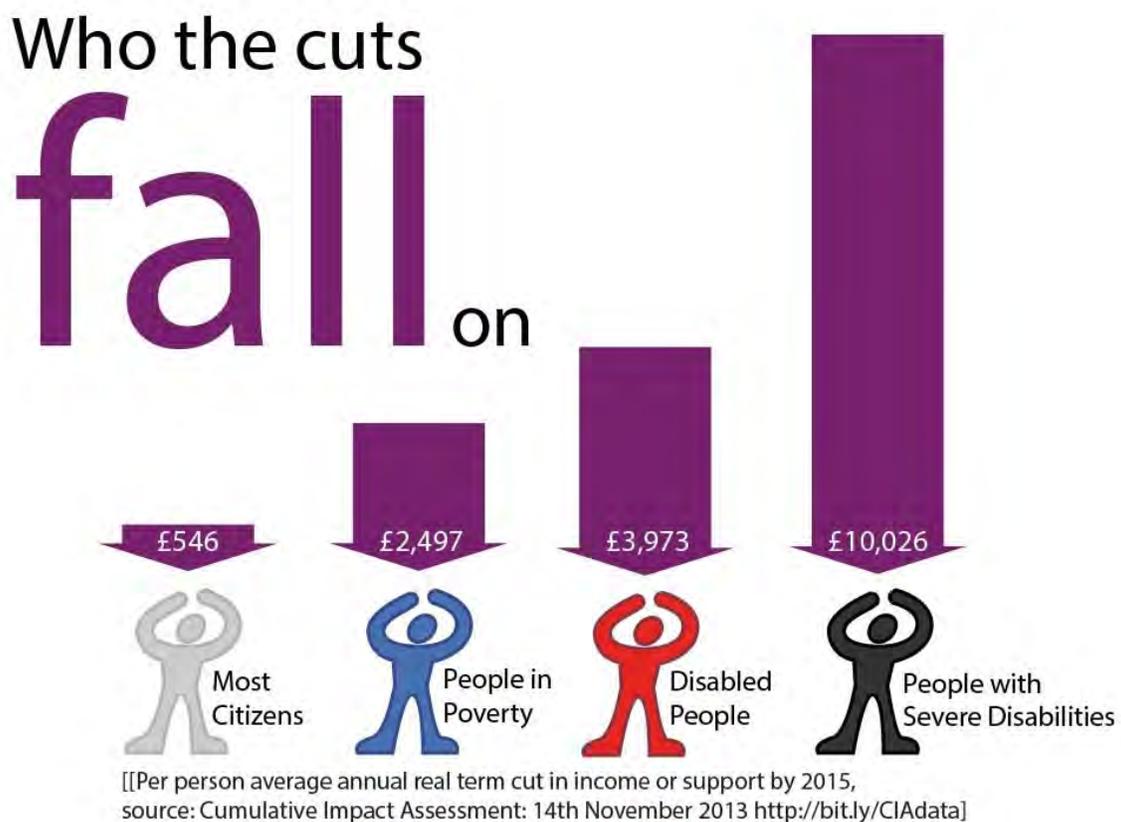


Figure 7 How cuts target disabled people

They are reforms that do not seem to create a genuinely universal solution that will make sense to all citizens.

The reason why positive reform is so difficult to achieve is that such reforms rely on normal political processes and these processes struggle to deliver the kind of fundamental reform required. Again, if we return to the moment when Beveridge was trying to persuade Government of the need for deep and systematic reform, we can sense his fear that his proposed solutions would be undermined:

The first principle is that any proposals for the future, while they should use to the full the experience gathered in the past, should not be restricted by consideration of sectional interests established in the obtaining of that experience. Now, when the war is abolishing landmarks of every kind, is the opportunity for using experience in a clear field. A revolutionary moment in the world's history is a time for revolutions, not for patching. [William Beveridge, *Social Insurance and Allied Services*, p.6]

In fact, as soon as the welfare state was first designed, the patching began. The current system is very patchy indeed and, as Beveridge spotted, the reason for this patchiness is to be found in the area 'sectional interests' - although it may be surprising to consider who these "sectional interests" really are.

The prospect of Scottish Independence or greater fiscal autonomy creates, however, some of the extraordinary conditions and processes that may actually permit radical change to take place, and the main blocks to positive reform to be overcome. We can characterise these blocks as follows:

1. A political need to please swing voters and median income earners
2. An administrative system that oversees its own reform
3. The economic and political power of the welfare state itself

We will consider each of these three blocks in turn.

3.4 The medianocracy

The biggest block to reform does not lie in the expected place. It is not the civil servants or those reliant on benefits who really block reform. The most evident block to reform is **the group of middle earners and the politicians who need to win their support**. Swing voters are vital to electoral victory, and the swing voter is very likely to be the median income earner.

For example the median household income in the UK is currently about £22,000. Like most groups (except the poorest 10% who pay 46% tax) they pay about 35% of their income in tax. If, however, we look at real marginal tax rates - that is the tax on the 'next pound earned' - we find that the tax system treats this group very differently. For this is a group:

- Largely outside the benefit system, escaping the extreme marginal tax rates paid by the poorest
- Paying the lowest rates of income tax (whether as one earner or as a couple) (and for a couple almost all income would be excluded from income tax all together)
- Still receiving universal benefits like child benefit

It is not an accident that this group faces the lowest marginal tax rates. If the household was much poorer it would start to attract benefits that would increase their effective marginal tax rate (although the tax rate would be disguised as a benefit reduction rate). If the household was richer then it would attract higher marginal tax rates. It seems that the tax-benefit system is so designed that the **most important group politically** is treated better than groups that are much less important politically (the poor and the better off).

It is also interesting to note that the tax system is designed to disguise the real marginal tax rates that people pay. This enables the state to give the appearance of taxing at modest levels (c. 20%) but spending at much higher levels (c. 50%). This sleight of hand is possible because taxes are shifted out of sight - onto sales (VAT) or employment - or redistributed in more opaque fashion (e.g. National Insurance) - or shifted on to the poor or wealthy.

We might describe this form of political power as a **medianocracy**. It is the median voter who has the most power, and principles of natural justice easily become distorted where this occurs. Note also how much of contemporary UK political debate can be analysed as the efforts of political parties to get the

median voter to identify themselves as their core constituency. On “the Left” the strategy is to encourage people to see themselves as needing more support, services or welfare. On “the Right” the strategy is to encourage the same group to see themselves as subject to unduly high taxes. Language such as ‘alarm clock Britain’ or the ‘squeezed middle’ tells its own story.

Both sides are then tempted to fulfil their promises by targeting programmes so that they bring extra benefits to their core voters and the swing voters they need. In this way benefits are minimised for non-target voters (the poor and the rich). These groups are already ‘captured’ by “Left” or “Right” and so no special effort needs to be made on their behalf. In addition ‘their’ party will only be in power intermittently - whereas the median voter is always represented by the party in power. **The greatest block to positive reform is the need of politicians to pander to one economic group - middle earners.**

3.5 Administrative self-protection

The second potential problem for the Scottish reformer is that the welfare state is not neutral. It has developed its own inherent special interests, and politicians find themselves not only having to deliver value to voters but also having to implement that value within and through the welfare state's own bureaucracy.

This leads to what we might call the sedimentary quality of the welfare state. Each new benefit, entitlement or reform tends to be developed as a new layer sitting on top of older systems. In the UK context it has proved incredibly challenging to redesign or challenge these historic layers. Each layer has its own 'delivery group' (civil servants, professionals, commercial or charitable organisations) and each layer focuses on a particular group or groups whose members benefit from that particular benefit.

In addition, political leaders are rarely responsible for any Government department for long enough to fully understand how it works and what is necessary for genuine reform. Similarly, legislative change tends to be piecemeal and incoherent. For example the *Law Commission in England*, when reviewing legislation for adult social care said:

Adult social care law remains a confusing patchwork of conflicting statutes enacted over a period of 60 years. Some of these statutes reflect the disparate and shifting philosophical, political and socio-economic concerns of various postwar Governments. Other statutes were originally Private Members' Bills and represent an altogether different agenda of civil rights for disabled people and their carers. The law has also developed with an inconsistent regard for previous legislation: some statutes amend or repeal previous legislation; others repeat or seek to augment previous law; and others can be categorised as stand alone or parallel Acts of Parliament. [Law Commission, 2008]

This sense of powerlessness in the face of bewildering complexity also confronts the think-tanks and policy bodies that have developed on the edges of the welfare state to support politicians in the development of their thinking and policy proposals. There is a very real sense that **radical reform is beyond the reach of the contemporary UK political system**. Nobody understands the whole system, but everyone within that system is acutely aware of their own place within it and the need to protect themselves from meddling or reform.

3.6 The welfare industry

It is natural for Scotland to ask, if the welfare state doesn't actually reduce poverty, what does it do with all that money? After all, the UK state is currently spending over £585 billion per year. It is almost as if, when we work for Government we don't see ourselves as beneficiaries, instead we see ourselves as doing everyone else a favour by offering them our services. We believe we are fully entitled to our own salaries, to our pensions and to our power, whereas 'the poor' should think themselves lucky to be getting our services. This is **self-deception on a rather grand scale** and it encourages a deeply patronising, frequently authoritarian, attitude to those who live in poverty.

Looking at this from a different angle we can see that, after receiving benefits and paying taxes, the poorest 10% in the UK are £1,500 better off. This improvement in income costs under £4 billion. For the four poorest deciles (the poorest 40% of households) the total cost of income adjustment is £25 billion. When we examine the extent of the positive contribution of the tax payer, however, we find that this amounts to approximately £215 billion. This means that at least £190 billion goes towards directly provided services (the actual figure is even higher as this analysis excludes corporate taxes and other expenditure).

Of course the 40% poorest families also benefit from these services, but often they benefit to a lower degree than the better-off. For example, the poorest 10% use £1,675 per year less than the mean. This amount is actually higher than the amount that they receive in positive income adjustment.

Perhaps, if the Scottish people really understood how badly the current system treats the poorest they might be more open to consider the case for sensible reforms. The poor are not 'scroungers' or 'benefit thieves'. In fact many of the poor hardly benefit at all from the current system. Furthermore, one might also note that the £190 billion contribution of the tax payer to services, rather than to income adjustment, is then spent on services that employ people. That is, tax payer income is primarily converted into salaries for doctors, nurses, teachers and civil servants. In other words, **the primary beneficiaries of the welfare state are those whom it employs, directly or indirectly**. For every £1 spent on reducing poverty at least £8 is spent on employing people within welfare services.

Again, it is useful to return to Beveridge, who was keen to point out that income adjustment was only one part of what a decent welfare system should do. He stated:

The second principle is that organisation of social insurance should be treated as one part only of a comprehensive policy of social progress. Social insurance fully developed may provide income security; it is an attack upon Want. But Want is one only of five giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness. [William Beveridge, *Social Insurance and Allied Services*, p.6]

The balance has now slipped too far the other way, however. It seems that the political system prefers to invest in services rather than adjust income. This may be because welfare state workers are a better source of votes for politicians than the poor; or it may be because welfare services have a certain glamour associated with their more obviously visible benefits (better to build a shiny new hospital than to lift the incomes of the poorest).

Whatever the reason, it is important that we start to become much clearer about the need for income adjustment as a fundamental feature of the welfare state. In the past there have been proposals to hypothecate healthcare spending as a fixed element of our taxation. Given the facts, however, it looks like **income adjustment - not healthcare - is what needs that kind of protection and ring-fencing**. Our thinking about welfare is corrupted by a focus on particular services, like the NHS, that carry great emotional weight or have become politically powerful. In order to begin a process of genuine reform it is necessary to return to a focus on poverty and income equality.

3.7 Possibility of reform

The current UK Welfare Reforms are only useful insofar as they create a level of awareness of the problems faced by the poor. These reforms, however, are undermined by economic panic, on-going stigmatisation of the poor and the failure (or refusal) to define them within the framework of human rights. Ultimately, even on the most optimistic scenario, the current reforms will inevitably leave some people in even deeper poverty, and many people subject to a confused and confusing set of regulations.

One possible solution to the conundrum of building a fairer welfare system within a modern democratic Scotland is to seek some kind of constitutional solution. This means defining certain fundamental principles (e.g. the elimination of poverty, the fairness of the taxation system, the elimination of poverty traps) within a constitutional framework that is protected from short-term political interference and protected by other structures - in particular the courts. In this way political process can discipline itself from the temptation to pander to the median voter, and, clearly, the intention to create a written Constitution in an independent Scotland provides a unique opportunity to break with the past.

It is important in this context to distinguish **rights and entitlements**. Rights are more fundamental and static than entitlements: ideally they would be established within constitutional arrangements that would be relatively immune to shifts of power within the political system. Entitlements are more fluid: they are particular interpretations of rights, fitted to particular times, needs or circumstances. The proposal here is that a fundamental right to a basic income to sustain citizenship would be fixed - constitutionally.

The precise entitlement that would achieve the fulfilment of that right would, however, need to be calculated empirically and this would change as society changes, and as:

- Prices fluctuate
- Essential goods change
- Overall wealth changes
- Learning increases about the impact of the entitlement system

Even if reforms are coherent and rational, however, they will still need to appeal to the hearts and minds of the public, and particularly to those median voters

who might focus on any increase in their marginal tax rates. Here are a number of arguments that could be used by Scottish policy leaders to this end:

- This reform will finally free the poor from **toxic dependency**, encourage greater social contribution, greater economic activity and stronger family life;
- The guarantee of a basic income is universal and, while it may not create an immediate net economic advantage for the every family, it will give all families a much stronger sense of **security**;
- It is simply **unfair** not to provide a guaranteed minimum income or to ask people to contribute in ways that are obscure or punitive;
- This reform will help reduce crime, violence, mental illness and social instability.

A number of relatively new trends also offer some additional hope that real change is possible:

- **New information technologies** - the internet and systems for processing and personalising complex sets of data, have led to approaches where technically complex chores are being simplified.
- **Brokerage industries** (like travel, insurance) are being simplified into systems like moneysupermarket.com or confused.com. Outside the welfare state, citizens both expect greater simplicity and greater control and they find that, when they put their minds to it, they can also create systems that make this possible.
- **New social movements** - the failure of UK political parties to protect the interests of genuinely disadvantaged groups has also led to new social movements that not only advocate reform but also design and create it. The disability movement created the possibility of reform in adult social care. *London Citizens* has had great success in improving the wages of Londoners. The *Scottish Campaign for a Fair Society* is making the case for social justice in the welfare system.
- **An increased focus on rights** - the primary political philosophy that underpinned the development of the welfare state was utilitarianism, and this is reflected in the cost-benefit models applied by social theorists. This approach tends to be insufficiently concerned with the rights of the weakest and underestimates the value of shifting power and control to individuals.

A renewed focus on rights, including our rights to social justice, can offer a better ethical framework for promoting positive reform and a fresh focus on citizenship, building on the work of the *Scottish Commission on Human Rights* (Chetty et al 2012).

Conclusion

The adoption of **Basic Income Security** in an independent Scotland is a challenging proposition. There will be those who feel this critique of the welfare state is too harsh, or even dangerous. We are still wedded to the Beveridge model of how to deliver welfare and we are nervous about anyone proposing changes in the name of reform. This fear is understandable. The concept of 'welfare reform' often just seems to mask further attacks on the poor or further erode our standards of social justice.

Yet surely Beveridge, if he were alive today, would be the first to be asking whether the system that he helped to design is really working. He would surely notice that many of his fears have been realised and that **it is the poor, above all, who are losing out.**

This is why the concept of design is so important. In planning a new system for a new country there is a need (and an opportunity) to move away from simplistic thinking about the welfare state - the 'more or less' argument. The welfare state is good, but Scotland needs one that is **better designed**. Above all, Scotland needs a welfare state that is more effective at supporting the poorest and disabled people.

Others will think that this analysis is naive or simplistic: that things are much more complicated than suggested here. This reaction is also understandable. Change is difficult and there are certainly many issues to resolve. Perhaps, as Beveridge feared, "patching" is all we will be able to manage. Yet, even if the political leaders of a modern Scotland can only manage to patch the welfare state, we are surely right to try to define the principles that might shape such patching. Even patching is a political process.

If you believe that poverty is not the fault of the poor then you will want to live in a country that works to improve the situation of the poor. If you believe that everyone, including the poor, has talents and the need to develop them, then you will want to live in a country where everybody gets the incentive, support and encouragement necessary to use those talents. If you want to live in a country where everyone is treated as a fellow citizen then you will want there to

be clear rights and responsibilities that everyone understands and acknowledges.

Basic Income Security offers a model that can be understood and communicated. It is a model that will serve the poor better. It is also a feasible model and if explained clearly and honestly will be attractive to the many. It is a model that reasserts the importance of meaningful rights and responsibilities: rights that we can identify, define and achieve; responsibilities which are neither burdensome nor obscure.

Ultimately, **Basic Income Security** offers a different way of understanding the problem of welfare. Welfare should not be a system for 'taking care' of the poor. Instead welfare should be our system for providing each other with the security and support necessary for each of us to be full citizens.

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Appendix: The Expert Group on Welfare

Question 1: What should be the high level purpose of the benefits system in an independent Scotland? What key outcomes should such a system achieve?

We propose the end of the benefits system. It should be replaced with an integrated tax-benefit system and a guaranteed basic income. The purpose of this system will be to:

- End poverty - to ensure that people's minimum income is adequate to sustain active citizenship
- Limit income inequality - to ensure that the gap between rich and poor is reduced and social cohesion increases
- Reduce insecurity - to give people a secure sense of basic well being
- Promote productivity - to maximise our options and incentives for self-improvement and contribution

This system would ensure Scotland met the obligations of the *UN Declaration of Independence* [see in particular articles 1-4 and 22-25].

Question 2: What are the main principles that should underpin the benefits system?

The principles of the new system would be:

1. that every citizen of Scotland was guaranteed a minimum level of income (basic income) that was adequate to ensure active citizenship.
2. that every citizen paid a fair level of taxation in order to fund the basic income and that those who earned more should pay more.
3. that the system was fully funded and that there was no danger of it leading to borrowing and debts for future generations.

Question 3: What areas of policy are fundamental to the delivery of this system? What evidence do you have to support that view?

The main policy areas underpinning this approach are alluded to below:

1. The tax and benefits systems should be integrated to provide a distinct system of basic income security for all, and more discipline in public spending. Benefits must be understood as a form of income transfer that should be measured – net of taxation; and not as a form of public spending (currently the cost of benefits after taxes in the UK is very low c. £25 bn; and most welfare spending is on employees in public services or in contracted services).
2. Basic income security should be guaranteed within a broad constitutional structure which is grounded in an increased and improved local democratic accountability; and safeguards and defends the human rights of Scotland's citizens.

Question 4: Which areas of welfare should be delivered as services and which through cash transfers, and why?

Overall the current system has become increasingly focused on services that professionals or bureaucracies control, rather than confronting people's need for a basic income and other forms of additional income. The recent move to self-directed support in social care is indicative of the right direction of travel.

It is probable that other parts of the current system would be better managed as citizen entitlements (cash) rather professionally defined services. This is still an emerging field and we would benefit from increased experimentation and local diversity.

We would propose that:

- The right to a basic income should be set as a fundamental responsibility of the welfare system and as a distinct right.
- Housing and social care should also be delivered as a citizen entitlement, not as a service - but with support from within the local community.
- It is possible that education and some part of the health system (e.g. therapeutic or long-term physical or mental health services) might also be helpfully converted into entitlements - but this will require local experimentation (and the transfer of the necessary powers to the local level).
- Emergency services and medical services that need to be rationed directly by professionals (e.g. surgery) should be managed locally.

The balance between citizen entitlements, services or other social changes cannot be defined a priori. It will be dynamic and will change as communities and individuals innovate. What is unacceptable is for central government to fix these balances or to reduce opportunities for innovation.

Question 5: Of these services or transfers which should be means-tested and which should be universal?

We can see no case for means-testing any service or basic entitlement. Means-testing is carried out by the tax-benefit system or by indirect taxes which fall on certain kinds of expenditure and investment. The welfare system should be universal and focused on meeting needs. Anyone entitled to support because of their needs has already paid into the system through taxation. Means-testing for an eligible need is then a form of double taxation, punishing someone for their needs.

In addition, means-testing promotes:

- **Poverty** e.g. older people giving away assets to ensure eligibility
- **Crisis** e.g. people putting off claiming for support, because of the cost
- **Expense** e.g. social care charging is ludicrously expensive
- **Demand** e.g. people with social needs being treated as responsibility of health

If services are inadequately funded they must not be allowed to means-test. It is more likely that they are failing to innovate, to tap into community and personal capacity or rethink their role in people's lives.

Question 6: How important is it that benefits relate directly to the contributions paid by an individual and if important which benefits and why?

There is possibly a case for attempting to create some kind of insurance system as a supplement to a basic income guarantee, but we are not convinced this is worth the financial and social costs. In particular we would argue that its risks include:

- An extra insurance system will undermine social commitment to the universal system.
- A system based on payment will increase the complexities of responding to the needs of people who have or acquire a disability and to mothers or those who take care of children, family or friends.
- A supplementary insurance system will encourage people to set the level of basic income too low and will increase income inequality overall.
- Any new system will add further costs, waste and confusion.

- People can already take out insurance and there is no strong argument for market failure in this area.
- The notion of economic contribution continues to foster a disrespectful attitude to parents, especially mothers, and to other who make contributions without being paid.
- The previous system broke down because government was not capable of insuring the necessary fiscal discipline to maintain contributions outside the main budget.

We propose that Scotland avoids the distraction of trying redesign a system based on contributions.

Question 7: When considering the cost of welfare in the future what are the most important considerations that Government should take into account and why?

Thinking in terms of the ‘cost of welfare’ is to misconceive the problem:

1. For citizens their entitlements only make sense net of tax. Given the poorest 10% of families pay the highest rate of tax (45%) it is already the case that there is no advantage to the poorest in keeping tax and benefits separate at the level of the individual. If benefits increase, but taxes increase, no benefit is received.
2. For the state it is not the cost of benefits that is important, but the sustainability of the relationship between tax and benefits. The state must ensure the balance of tax and benefits over a reasonably short fiscal period (may be longer than a year, but certainly not too long).

The tax-benefit system simply cannot afford to go out of balance - the cost of benefits must be matched by taxes raised. If the purpose of the tax-benefit system is to support citizenship then its success can be measured by reference to:

- Levels of poverty and income inequality
- Social well-being and mental health
- Strength of relationships, family and social networks
- Diversity and meaningful productivity of our communities
- Personal growth and development

There will certainly be basic income levels that are too low and which do not reduce poverty sufficiently; there could also be basic income levels that are too high and which cannot be afforded by any reasonable system of taxation and

which do not provide the right incentives for personal growth. It is for society to resolve this matter by continuing to reflect on what is a 'reasonable minimum' and to observe and learn from the social and economic effects of such a guarantee.

The guaranteed basic income becomes a basic right in a reformed system. The specific entitlements and the details of the taxation system it requires cannot be fixed for all time. So we must treat them as provisional and seek to learn together how to find a sustainable solution.

Question 8: How should benefits be delivered in this system? What would this entail? Are there barriers to such a structure?

There is no need for a 'benefits system'. There should be one national basic income insurance that would be run from within a reformed tax system. There are also good reasons to make the delivery of the national system much more local, although the move to a local system would need to be managed intelligently.

Question 9: What are the advantages and disadvantages of the delivery system you propose? What should be its relationship be with job centres, work programmes and provision for others who may not be able to work?

One of the great practical advantages of a system of nation insurance based upon a basic income is that it radically reduces the need to link income entitlements to any further system of bureaucracy. Instead local communities should be empowered to develop their own range of responses to local need:

- Systems of peer support where people meet their own needs for assistance
- Working with the grain of civil society in local communities
- Testing out new ideas and learning from other local communities
- Building on local education and employments services

One of the failings of the current system is the on-going effort by Whitehall to over-engineer support into work. There is no advantage in shifting this over-centralisation of decision-making to Edinburgh.