

# Let's Scrap the DWP

THE CASE FOR BASIC INCOME SECURITY IN SCOTLAND

by **Simon Duffy and John Dalrymple**

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Published by The Centre for Welfare Reform

On behalf of the Campaign for a Fair Society



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Thanks too for the on-going support of the Campaign for a Fair Society, working to put social justice back on the agenda.



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# SUMMARY

## Here are the main arguments contained in this paper:

- ❖ The Campaign for a Fair Society believes everyone should get a Basic Income. Absolutely everyone, without exception. It is a fundamental human right.
- ❖ A Basic Income is enough money to live on so you can have an okay life.
- ❖ Everyone has the right to live a life with dignity and freedom – absolutely everyone, with no exceptions.
- ❖ We must all commit to take care of each other so that no one ends up fearful, insecure or bossed around.
- ❖ Nobody should have to put up with an absurd benefit system that makes life more difficult for disabled people and people who are poor.
- ❖ Having benefits and taxes as two different systems is nonsensical. We need co-ordination and integration.
- ❖ It's time to scrap the DWP. It shames people unfairly and its work could be done better by other parts of government.
- ❖ Most taxes are hidden. They are indirect, like VAT, or they are hidden inside the ludicrous benefit system - meaning people on benefits struggle to earn a little extra, however hard they work.
- ❖ It's unfair that poor pay the most tax. Taxes should be fair - not loaded upon people on the lowest incomes
- ❖ A Basic Income system can be afforded by the United Kingdom or Scotland. It would be good for people, good for the economy and would reduce unnecessary bureaucracy and interference in people's lives.

**There are four big reasons why we should have a new system:**

- 1.** We should live in a fair society where everybody has the right to freedom and security.
- 2.** People should know where they stand and the system should be clear and easy to improve.
- 3.** People's talents shouldn't be wasted - it's bad for the whole of society to have a system which stops people making the most of themselves.
- 4.** The world is changing - new technology, machinery, trade and the way we use the planet means we need a new approach where we take care of each other and our environment.

# FOREWORD

by Jim Elder-Woodward OBE

**After some discussion around how basic income might be incorporated within today's neoliberal British welfare system, both authors of this submission asked if I might discuss that issue within a foreword.**

From the outset, it must be said that the authors do touch on many of the points I make. However, I hope by highlighting the foundation to basic income policies and practices, as well as looking at other wider ameliorating factors for its development, the reader may have a more enlightened read of this report.

Basic, or Citizen, Income can be traced back to the thinking of the great egalitarian philosopher, Thomas Paine, who wrote *The Rights of Man*, in 1791. However, three years later, in 1795, he also published a pamphlet called, *Agrarian Justice*.

In this pamphlet he argued that, "the earth, in its natural uncultivated state... was the common property of the human race." The concept of 'private ownership' arose as a result of the development of agriculture. Since such private agrarian property was originally taken from the general populace, the basic needs of all humanity must be provided for by those property owners. However, as the intrinsic value of the property could not be distinguished from the labour that its owners put into it, their 'payment' would not be taken from them until the time of their death; thereby allowing them the pleasure of the outcome of their toils.

Paine calculated that a 10% inheritance tax would not only pay for the needs of elderly (over 50), poor and disabled people, but would allow everyone reaching the age of twenty-one "a one-time stipend of 15 pounds sterling... to give them a start in life." [1]

Today, Paine's arguments fall into two camps of philosophical debate around what is generically called 'asset based citizenship'. Here the argument is that the citizen must be provided such resources not just to survive, but to participate actively in the full range of civic, economic and familial roles a responsible citizen must fill.

**These two camps comprise:**

1. Universal Basic Income, as elaborated by Philippe van Parijs, and others: [2]

Here all citizens are given a monthly monetary benefit sufficiently high to provide them with a standard of living above the poverty line. This monthly income is universal rather than means-tested – it is given automatically to all citizens regardless of their individual economic circumstances.

It is unconditional – receiving the basic income does not depend upon participating within the labour market, or satisfying other conditions. In this way basic income is like publicly-financed universal health insurance. In a universal health care system, medical care is provided both to citizens who exercise and eat healthy diets and to those who do not. It is not a condition of getting medical care that one be 'responsible' with respect to one's health.

Unconditional, universal basic income takes the same stance about basic needs: as a matter of basic rights, no one should live in poverty in an affluent society.

2. Stakeholder Grants, as elaborated by Bruce Ackerman and Anne Alstott; again among many others.[3]

Here all citizens, upon reaching early adulthood receive a substantial one-time lump-sum grant sufficiently large so that all young adults would be significant wealth holders. In 1999, Ackerman and Alstott proposed that this grant be in the vicinity of \$80,000 and would be financed by an annual wealth tax of roughly 2%.

They argued that in the absence of such grants, children of wealthy parents are able to get lump-sum stakes for education, housing, business start-ups, investments, and so on, whereas children of non-wealthy parents are not. This situation fundamentally violates values of equal opportunity. A system of stakeholder grants, “expresses a fundamental responsibility: every American has an obligation to contribute to a fair starting point for all.” [4]

**This submission concentrates on the first camp - a basic income.**

Its basic principle is: Each citizen should be entitled to a basic income, which is sufficient to avoid poverty, and each should 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.

**The question I should like to raise is: Could this basic principle fit into any welfare state, or is there an optimum state which is most fertile for it to flourish?**

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It is ridiculously difficult to categorise different welfare states, as they evolve and dissolve according to the current political ideologies; and none can be said to be the template of any one category. However, Esping-Andersen has developed a typology of the 'three worlds of welfare capitalism':

1. **Liberal Welfare States** are mainly characterised by an emphasis on market-based (private) social insurance and the use of means-testing in the distribution of resources. Universal transfer payments and benefits are modest. Welfare is mostly directed towards ‘the poor’, who are stigmatised because the state believes higher levels of benefit and status would reduce the incentive to work. Here, the USA and Australia have been given as exemplars.
2. **Conservative or Corporatist Welfare States** maintain existing class and status differentials. The state rather than the market mostly delivers welfare, but not to redistribute wealth, only to stabilise current social and political structures. The state promotes dependency on the traditional family and will only intervene when that no longer exists. Collective child minding and female entry to the labour market are discouraged. Corporatist Welfare States are usually those where the influences of the Catholic Church or hangovers from more authoritarian regimes exist. These can be found in Eastern and Southern Europe.
3. **Social Democratic Welfare States** are characterised by principles of universalism, and equality. These regimes tend to encourage equality across classes and are based on high standards of living, rather than the minima. In such regimes, the state takes

full responsibility for the care and socialisation of the family, from child-care to the care of the elderly. The main goal is full employment and those traditionally excluded from the market (incl. females and disabled people) are supported to enter.

**According to Esping-Andersen:**

*This model crowds out the market, and consequently constructs an essentially universal solidarity in favour of the welfare state. All benefit; all are dependent; and all will presumably feel obliged to pay.[5]*

It would be obvious to anyone that the altruistic concept of basic income would prosper more vigorously within the social democratic system of welfare, which has been developed mainly within the Nordic states. Indeed, the concept of Basic Income comes from a distinct stable of the philosophy of ‘social republicanism’ which closely resembles that of social democracy.

**Within ‘social republicanism’ there are six core principles:**

1. **The common good** - the legitimate political system is one in which law and practice is orientated to the common good of all; and all are subject to that law and practice
2. **Inclusion** - the legitimate political system is one in which law and practice is positively and inclusively exercised
3. **Deliberation** - the legitimate political system is one in which law and practice is exercised following full and informed deliberation
4. **Independence (or non-domination)** - the good society is one in which every citizen is free in the sense of not being subject to domination
5. **Participation** - the maintenance of republican institutions demands a citizenry which is able and willing to participate in collective decision-making in a public-spirited fashion
6. **Economic egalitarianism** - the good society is one in which there is a limit to inequality of wealth amongst its citizens[6]

**As Birnbaum and Casassas (2008, p77) note:**

*...the republican aim is not to (ex post) repair unjust distribution of social product, but to (ex ante) institutionally grant all individuals an inalienable position for them to operate within a society with effective capacity – with effective freedom – to independently put into practice their own life plans.[7]*

Whether any society presently meets all of these altruistic principles is a subject for another place. However, a social democratic system which promotes social inclusivity and full deliberative decision-making would probably fertilise the growth of the concept of basic income; and indeed some have implemented comparable asset-based policies.[8]

The social republican concept of a ‘good society’ is very similar to that which has been advocated by the independent living movement, developed by disabled people in Scotland.[9]

In particular, the idea of a direct payment to pay for support can be seen as an asset provision, or partial basic income, to enable participation in, and engagement with, society. The independent living movement also encourages inclusion, participation and deliberative decision-making. It has advanced the concept of ‘co-production’ and published a ‘Toolkit for co-production’ which explains in plain language how disabled

people can participate in policy and practice decision-making.[10]

Asset based welfare to promote engaged citizenship has been discussed in both America and Europe. This should not be confused with 'workfare' programmes devised in America and presently being replicated within the current UK coalition Government's neoliberal welfare reforms; for 'engagement' means more than just participating in the labour market.[11]

Within Britain, the idea of giving 'assets' to people to empower their reciprocal role as citizens has been trialled by the last Labour government in the development of its Child Trust Fund. Each child was to be given £250 at birth, followed by another £250 at age seven. This money was to be invested in a Trust which would attract interest and growth in the stock-market over time. Families were also allowed to contribute to their children's Trust which would mature at age eighteen. The libertarian concept of the child being free to do whatever she wished was assumed, although politicians hoped the accrued money would go towards her further education

It is true to say that within Britain, such 'asset-based' welfare has been discussed mainly around helping 'the poor' to save money. But in America, Scandinavia and others parts of Europe, 'asset-based' welfare has a wider remit in engaging, again mainly 'the poor', to be engaged in their citizenship development and favours the uptake of education and employment opportunities.[12]

If welfare and social services were to be asset creators for an engaged, participative citizenship then such social republican policies and practices would certainly enable independent living. As it is, the neoliberal policies and practices of Britain today lead to mere dependent survival. Policies and practices to enable a disabled person not just to get washed and dressed, but to become active in her family, cultural, economic and civic life, would be truly an asset-based welfare provision.

It should be remembered that, although realised programmes of 'asset based citizenship' mainly started within programmes for 'the poor', the original concept was that it would be a 'universal' provision, but one where some may require more assets than others, to achieve the same things.

For example, the Nobel Prize Winning Professor Amartya Sen, with his PhD student Wiebke Kuklys, found that when 'conversion handicap' (those assets which are needed by disabled people to achieve the same things as non-disabled people) was added to 'income handicap' (that which is the difference in income between disabled and non-disabled people) the difference in the poverty gap between the non-disabled poor and the disabled poor rises from five to thirty percentage points.

Therefore, as disabled people need more assets (money) to achieve the same as non-disabled it may be sensible to start asset based welfare with this group of people.[13]

In conclusion, all of this may seem to require quite a societal upheaval, and therefore may be considered unrealistic. But if Scotland were to become (more) independent, then its current disposition towards social democratic policies and practices might provide more fertile ground for turning to more social republican policies and practices.

**As White (2008, p21) states:**

*The vision is not of a utopia, of a society which fully realises the values of liberty, equality and 'fraternity', which have historically inspired progressive politics. But it is an ambitious vision nevertheless. It pictures an active state working to disperse property and increase the accountability of decision-makers throughout society. At the same time, as part of the process of dispersing power and enhancing accountability, the nature of the state itself is transformed by*

*greater citizen participation in and around policy-making. We should not want a state that swallows up society, but nor should we reconcile ourselves to the neo-conservative vision of a market society (in which the market swallows up the society). The challenge is to put the state and the market in their place so as to build what we may call a citizen society.[14]*

As Chair of the Campaign for a Fair Society I commend this report on how a basic income works and how a (more) independent Scotland might embrace it.

*Notes, marked by numbers in square brackets in the foreword:*

1. See: <https://www.socialsecurity.gov/history/briefhistory3.html> [Accessed 14/04/14]
2. Van Parijs, Philippe ed (1992) *Arguing for Basic Income: Ethical Foundations for a Radical Reform*. London, Verso.
3. Ackerman B and Alstott A (1999) *The Stakeholder Society*. New Haven, Yale University Press.
4. Those interested in the modern debate around these issues may like to visit: *The Real Utopias Project* at: <http://www.ssc.wisc.edu/~wright/RealUtopias.htm> [Accessed 14/04/14].
5. Esping-Andersen G (1990) *The three worlds of welfare capitalism*. Cambridge, Polity Press.
6. White S (2008) *The emerging politics of republican democracy* in White S and Leighton D (eds) (2008) *Building a citizen society*. London, Lawrence and Wishart.
7. Birnbaum S and Casassas D (2008) *Social republicanism and basic income* in White S and Leighton D (eds) (2008) *Building a citizen society*. London, Lawrence and Wishart.
8. Elder-Woodward J (2009) *Whatever happened to the human altruism gene A service user's view of the Welfare Reform Bill*. DISABILITY AND SOCIETY, Vol 24, Issue 6.
9. Elder-Woodward J (2013) *Independent living: the frontier to communitarian welfare*. DISABILITY AND SOCIETY, Vol 28, Issue 2.
10. See: <http://www.ilis.co.uk/get-active/publications/co-production-toolkit> [Accessed 14/04/2014].
11. Sherraden M (1991) *Assets and the poor; a new American welfare policy*. New York, M E Sharpe Inc; Le Grand J (2013) *Subsidiarity and individual responsibility: quasi-markets and asset-based welfare* in Brugnoli A and Colombo A (eds) *Government, governance and welfare reform: structural changes and subsidiarity in Italy and Britain*. Cheltenham, Edward Elgar.
12. Emerson C and Wakefield M (2001) *The Saving Gateway and Child Trust Fund: is asset-based welfare, 'well fair'*. London, The Institute of Fiscal Studies.
13. Kuklys W (2005) *Amartya Sen's capability approach; theoretical insights and empirical applications*. Berlin, Springer.
14. White S (2008) *The emerging politics of republican democracy* in White S and Leighton D (eds) (2008) *Building a citizen society: the emerging politics of republican democracy*. London, Lawrence and Wishart.





# INTRODUCTION

*The most difficult struggle of our civilisation has been to find the means to create autonomy for ordinary lives, so that they might not be plundered or disposed of by more powerful people. Ideas like civil rights and personal liberty came directly from this struggle, which is not terribly well advanced at best, and which is untried, failed, or abandoned in most of the world.*

---

Marilynn Robinson

This paper began life as a response to the Scottish Government's call for submissions to its Expert Working Group on Welfare which was established "to review the Scottish Government's work on the cost of the current benefits system their plans for delivery of benefit payments in an independent Scotland, and provide views on transitional issues that would be relevant to the continued delivery of benefit payments in the event of independence."

In the process of undertaking this work we became aware of a broader community of groups and individuals committed to developing and articulating similar sets of ideas. These include the Citizens Income Trust, Basic Income UK, the Basic Income Earth Network (BIEN), Compass and the Jimmy Reid Foundation. We have begun to make contact and share ideas with people in these groups who, in the normal course of our professional lives in the world of social care and disability rights, we might otherwise have had little contact.

We are disappointed that, despite receiving a number of submissions supportive of the concept of a 'Citizen's Income', the Working Group's recently published second report did not embrace the main thrust of these ideas; while at the same time heartened that one of the members of the Working Group, the late Ailsa McKay, is the co-author of a recently published report that, amongst other things, promotes a Citizen's Income as a form of improved social security.

It is in this context, then, that we are publishing on behalf of the Campaign for a Fair Society and The Centre for Welfare Reform, a revised version of our work, informed by recent events and a wider perspective. We are grateful to Jim Elder-Woodward for his thoughtful and wide-ranging foreword; and to Annie Miller of the Citizen's Income Trust for her reading of part of an earlier draft. Our thanks also to Malcolm Torry, Guy Standing and Malcolm Henry for their interest in our work.

This report offers a clear and accessible argument for a transformational reform of the current benefit system in the UK. To state the matter starkly, we believe it is time to scrap the Department of Work and Pensions and to replace it with a secure income for all citizens, organised through the existing tax system, and giving people a decent income to live on.

**Basic Income has been defined as follows:**

*A Basic Income is an unconditional, automatic and non-withdrawable payment to each individual as a right of citizenship.*

Citizen's Income: a brief introduction Citizen's Income Trust, 2013

But we are going further. Because we think that Basic Income levels need to be set above mere subsistence (thus removing everyone from poverty) and made part of a formal system to make sure it is protected, we are proposing a wider system which we are calling Basic Income Security.

**In summary Basic Income Security means:**

Each of us is entitled to a secure income that eliminates poverty; and each of us must contribute by paying a clear and fair level of taxation on any gross income other than this basic income.

**Basic Income Security requires a number of different elements, each implying changes in the way we organise things at present:**

1. Co-ordinated and integrated tax and benefits
2. Individualised, gender-equal approach to tax and benefits, supporting families in all their forms, ensuring the inclusion of people in retirement, people with disabilities and children
3. Simplified tax and benefit calculations
4. Social Security through a universal, non-means-tested, entitlement
5. Fair rates of taxation, removing extreme rates of taxation from the poorest
6. Human rights, embedded in a new constitution for Scotland or the UK

This may seem utopian - but it is not. The case for Basic Income Security has always been strong, but the urgency of the need for fundamental change has been crystallised by the UK Government's systematic attack on poor and disabled people over the past four years. Deeply rooted in the worst type of judgmental and authoritarian poor law thinking, the Government has:

- ◆ Resurrected the offensive distinction between the 'deserving' and 'undeserving' poor
- ◆ Scapegoated unemployed poor and disabled people, through the promotion of the belief that, on account of some form of moral failure or deceit, they are to blame for their own poverty and lack of work
- ◆ Targeted unemployed poor and disabled people for benefits cuts
- ◆ Justified the abusive regulation and sanctioning of unemployed poor and disabled people 'for their own good' and *pour encourager les autres* into poorly paid jobs
- ◆ Attempted to justify reductions in benefits and public spending as a means of addressing poverty
- ◆ Sustained the promotion of a low wage economy, to meet the needs and interests of financiers and industrialists rather than the needs of the general population
- ◆ Disconnected work from pay by granting employers free access to the labour of people who are not employed, in return for the payment of meagre benefits counted as welfare spending; with no acknowledgement of any wealth produced

- ◆ Sustained an attack on the very notion that low paid people and people without work should have meaningful personal or political rights
- ◆ Taken retroactive Parliamentary action to change legal judgments from the courts that don't fit with its agenda
- ◆ Overseen the deportation of individuals and families from their home areas when they can no longer afford the local cost of rented accommodation – a cost inflated by reactionary and counter-productive Government policies such as the 'bedroom tax'

As if all this were not enough the UK work and pensions secretary is now reported as insisting that his incompetently implemented and impossibly paternalistic 'welfare reforms' must continue in order to sustain the country's 'jobs miracle'; while simultaneously the prime minister promises, with no hint of irony, that from now on all policies will first have to pass a 'families test'.

**In place of the madness of 'reforms' that make things worse, Basic Income Security stands out as clear and positive alternative, offering:**

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

**Not only is this a positive and possible reform, it is also a reform capable of creating a common cause amongst a range of intersecting social groups:**

- ◆ **Disabled people** - who have suffered indignity at the hands of Atos and the Work Capability Assessment system in order to get the most modest benefits
- ◆ **Women and family-carers** - whose dedicated work goes unrecognised and unpaid within the economic system
- ◆ **Unemployed people** - who are forced to take up increasingly meaningless and degrading 'work', with no reference to their gifts, skills or needs
- ◆ **Trade unionists and those who advocate a living wage** - whose bargaining power would increase with increased income security
- ◆ **Churches and community groups** - who are seeing the breakdown of local communities and a decline in resilience, hope and creativity

These groups need and demand a system that recognises the innate worth of all citizens, and the many different forms of legitimate work – not just paid employment. For too long we have allowed a few politicians to tell us what's important and who really matters.

**We are all important, we all matter.**

In September 2014 the people of Scotland will decide whether they wish to become an independent country. In May 2015 there will be a General Election in the UK. In both instances we have the chance to argue for genuine reforms to a welfare system which until now has been dominated by Whitehall and Westminster. This report will be particularly addressed to a Scottish audience, but is relevant to the other countries in the UK. It is

clear that - whether or not Scotland votes for independence - many Scots are tired of being forced to live within a welfare system that does not respect the principles of fairness that they take for granted - whatever their political affiliation or view of independence. Scots can lead the way in making the case for **Basic Income Security** as a fundamental right for all citizens.

# 1. Basic Income Security

Basic Income Security is an important idea that will radically change the nature of income security and the rights of citizens. It is the key to modernising the economy and the structure of the welfare state in order to enhance citizenship, family and community - the building blocks of a fair society. Although radical, it is also entirely feasible and achievable by a series of potentially gradual steps.

## 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 and Customs (HMRC). The main UK system for giving people benefits (including pensions) is the Department of Work and Pensions (DWP). There are also various other taxes and benefits scattered through the workings of other Government departments and local Government.

The co-ordination and integration of the tax and benefit systems has several advantages:

- ◆ The stigma of the benefit system will be removed: all citizens obtain their entitlements through one system; it is clear that the wealthy also get benefits from one universal system
- ◆ The incoherence of the tax and benefit systems can be engineered-out to create better incentives for low earners
- ◆ The administration of the tax-benefit system will be made more efficient

It does not need to be assumed that all taxes can, or should be, simplified, or that all taxes should be based upon income. There are other uses for taxation besides providing income security, and other roles for taxes beyond simply providing public funds. Some advocates of a Basic Income have even argued that income tax is the wrong kind of tax for the future (Henry, 2013). However taxes on income are a very large part of the current UK system and the impact of other taxes (e.g. VAT) is also significantly related to income (although these taxes tend to target the poor, as against the rich).

It is our combined system of tax and benefits that alters people's final incomes and this system should be coordinated and made accountable for its effectiveness in removing poverty and reducing inequality.

## 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 incoherent approach damages the whole fabric of society. We must respect and support family life and, in particular, the needs of women.

A co-ordinated system requires a unified taxonomy describing who gets benefits and who pays taxes in a unified way. This will require a major change to the current system (with its in built patriarchal assumptions), for the first time defining entitlements for individual citizens and children, on a basis of gender equality, taking no account of family circumstances. This will encourage people to build stronger families, as resources shared within families are likely to go further than resources spent by lone individuals.

Such an approach has several advantages:

- ◆ 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
- ◆ Provides opportunities to shift more resources into the direct control of women
- ◆ Simultaneously protects the rights and interests of the person living alone, in a household of one.

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## 1.3 SIMPLIFIED TAX AND BENEFIT CALCULATIONS

The tax and benefit system has evolved into a highly complex system, with over 100 discrete benefits or benefit rates and at least 27 different forms of taxation (Browne and Hood, 2012; Browne and Roantree, 2012). At the heart of a reformed system must be a simpler, less duplicative, means of calculating how much someone needs and how much someone owes. There is no reason why this calculation should be undertaken repeatedly as at present.

A system adopting a simplified calculation principle would be:

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

Although it is true that family circumstances change over time, 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 a 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 readily reclaim any overpaid tax (see Figure 1 below). Injustices of this kind must be eliminated (Duffy, 2013a).

## 1.4 BASIC INCOME SECURITY FOR ALL

In the current set of UK arrangements there is 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; while others, such as single homeless people, may fall through the safety net entirely.

In addition, poverty is 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 it 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 63 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 higher 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

Many subtle forms of tax are hidden within the current system (e.g. benefit reductions rates and means-testing). 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 highly complex and regressive. As things stand it is the poorest who pay the highest rates of marginal tax, although much of this is hidden in indirect taxes and benefit reduction rates (the rate at which benefits must be paid back as earnings increase). As we will go on to describe, it is hard to imagine a more unfair and chaotic tax-benefit system than the one we have in the UK.

## 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 UK departments of state are incredibly powerful (in 2013-14 they spent 43.8% of GDP) there are no significant constitutional guarantees for citizens about how their social rights and duties are defined or respected (HM Treasury, 2014). 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, p. 1) sets the context in which these might be achieved.

Some of the reasons why Basic Income Security is attractive have been indicated above, but some demand more explanation. This is best done by exploring the more holistic case for welfare reform.

Four main arguments are presented for making this fundamental change to our system are:

1. **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.
2. **Rationality** - the current system is unduly complex and opaque, serving not only to erode transparency and a reasonable sense of entitlement, but also makes it difficult to test-out whether, and to what degree, incentives can be reshaped.
3. **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.
4. **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. A Fair System

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 to 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 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 of 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):

1. **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
2. **People** - family, friends, peers and colleagues: human flourishing is impossible in isolation, instead we develop through our relationships with others - especially relationships of love
3. **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
4. **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)
5. **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 (Vidyarthi and Wilson, 2008). Hope is essential to the human spirit.



Figure 1 Real Wealth

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, the development of relationships and engagement with community that are 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 (despite the fact that his 'minimum' level of social security was set at unhelpfully low 'subsistence' levels):**

*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

However, the way that the system has evolved has led to a situation where the incentives people face 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 inter-locking 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.

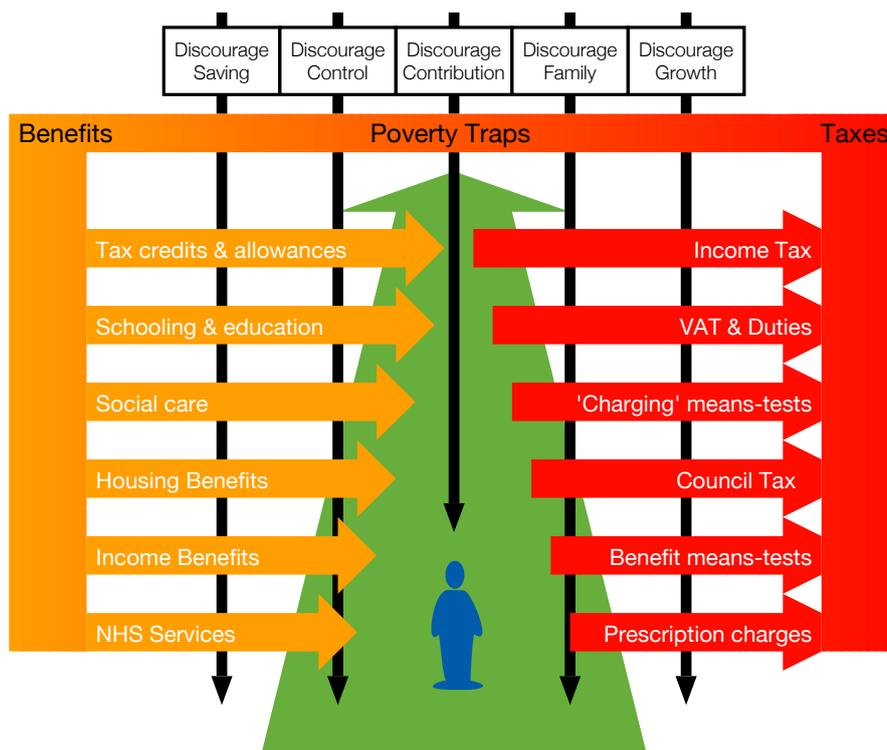


Figure 2 Poverty Net

This is not the fault of welfare, or of social security as such, but of the specific design of the current system. 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 a badly designed welfare state.

The idea of a Poverty Net is also 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':

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.

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 marginal 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 is barely affected:

*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).*

DWP, 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.

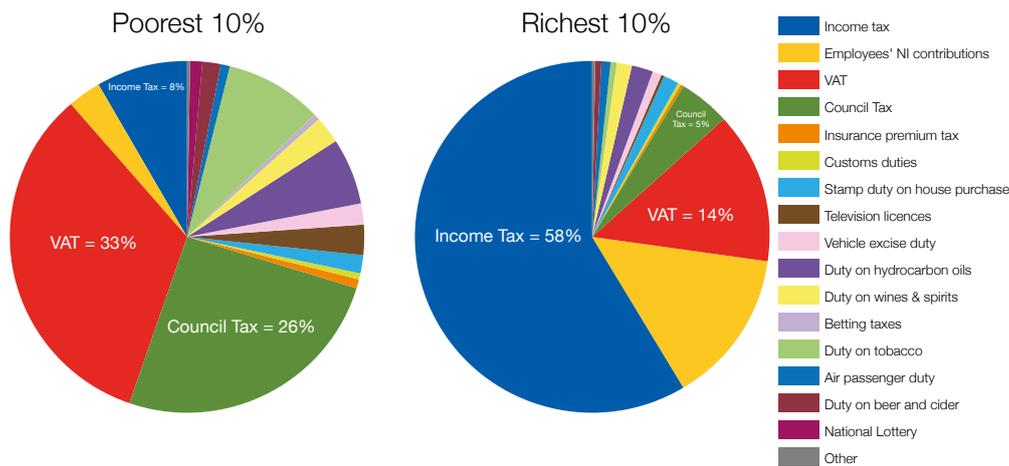
For many people relying on benefits, total incomes are not quite as low as £2,780. Many people are entitled to other benefits or tax credits. Different benefits have different rules and different tax rates; and some benefits are linked to other benefits. The impact of these additional benefits, however, has been to maintain very high tax rates for the poor and to create even more complexity and confusion for all 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 and Browne, 2009). The most important of these are taxes on income and taxes on sales. In Figure 3 we can see that while, for the wealthiest, income tax is the most important tax (58%), for the poorest VAT has the biggest impact (33%) (ONS, 2014).

The impact of the marginal rate of tax - the rate of tax which you pay on the next pound you earn - is very important. In the media this is often assumed to be the same as the income tax rate - but this is wrong. The rate of income tax is only one factor in determining the Real Marginal Tax Rate.

**The Real Marginal Tax Rate is made up of all the taxes we pay, amongst which the main ones related to income are:**

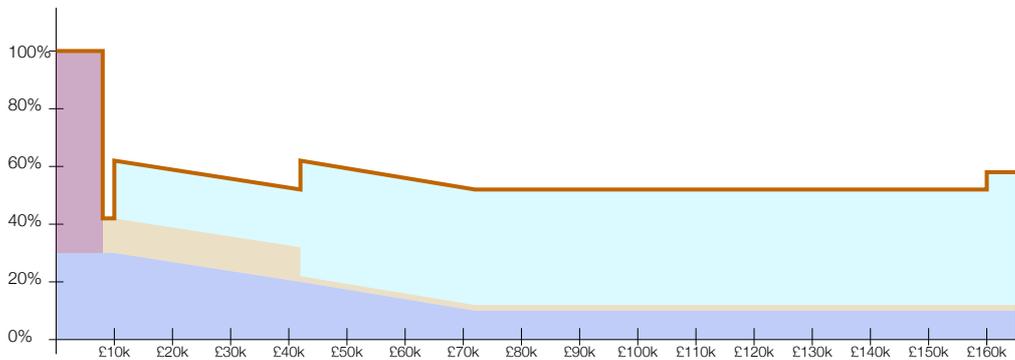
- ◆ **Means-tested benefits** - which are effectively taxed at 100%; this means you get no financial benefit from earning more
- ◆ **Income tax** - which begins when you earn £10,000 per year at 20%, and then increases to 40% if you earn £42,000 per year, and 45% if you earn £160,000 and more
- ◆ **National Insurance** - which starts at £8,000 per year at 12%, and then drops to 2% if you earn £42,000 or more per year
- ◆ **Indirect taxes (e.g. VAT)** - these are highest for the poorest (taking about 30% of income) but drops to less than 10% as you earn more than £70,000



**Figure 3** Different taxes paid by poorest and wealthiest 10%

This means that the UK tax system is not progressive - you do not pay more tax as your income increases. Instead it is highly regressive, then flat. That is, you pay very high rates of tax when you have a low income and then the rate of tax hardly changes as your income increases. Partly this is because, while direct taxes go up a little, indirect taxes become progressively less important. We can see the combined impact of these different marginal tax rates in Figure 4 which offers an approximation of the Real Marginal Tax Rate. [This is just an approximation, based on a single adult; there are many complexities as circumstances change, however the overall pattern continues to hold.

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**Figure 4** The Real Marginal Tax Rate

But this is only the beginning of the tax-benefit madness. There are also many other hidden taxes or taxes 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 an additional 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.

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**And all of this is just an initial description of one kind of poverty trap - the income-poverty trap - the extreme levels of marginal taxes faced by the poorest. There are many other forms of poverty trap, each of which serves to damage or stifle human development.**

1. **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.
2. **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.

3. **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.
4. **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 an enhanced pension.

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 over and above that received through universal benefit

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

Just as Basic Income Security solves the problem of benefit dependency by making everyone eligible for this benefit, it 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.

# 3. A Rational System

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.

One symptom of this obscurity is that fact that there is a widespread, and utterly false, belief that benefits are expensive and that the poor don't pay taxes. Nothing could be further from the truth. In fact the poor pay the most tax - as a percentage of their income - and the real cost of the benefits system is very low.

Each year the Government's own Office of National Statistics provides detailed data describing how much tax is paid by each 10% or decile of the population. As Figure 3 above has already demonstrated the poorest do pay tax - they just happen to be different taxes from those paid by the better off.

What is more, when all the different taxes are put together we can calculate the average percentage of tax paid by each decile. What we discover when we do this analysis is that poorest 10% pay the highest level of tax of any group - 47.3%. For those who are less poor, as income rises the level of tax paid remains broadly level at an average of 32.9%. So the poorest are paying nearly 15% more tax than the rest of us.

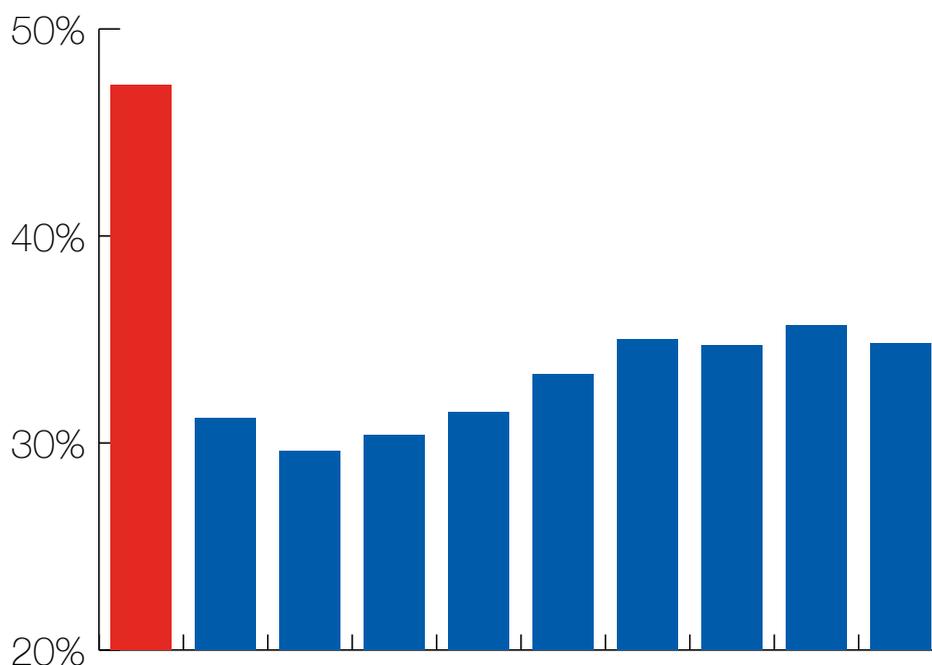


Figure 5 The poor pay the highest taxes

The other myth is that the cost of benefits is extremely high. However this is an illusion created by ignoring the fact that we not only receive benefits (pensions, child benefit tax credits, out-of-work benefits, disability benefits) but we also pay taxes. If you give someone two pounds, but immediately demand one pound back, then you have really only given them one pound.

**Benefits should be really evaluated by their net cost - how much do they actually make people better off, after taxes. If we calculate this figure we find out three important things:**

- ◆ 40% have their income increased by £26.5 billion - this is the real 'cost of benefits'
- ◆ However 60% have the incomes reduced by £213.7 billion - this is the real cost of taxation
- ◆ Most taxation - £187.2 billion or 87.6% is not spent on reducing poverty but on other services or Government spending

Figure 6 shows the net effect of taxes and benefits for the different deciles:

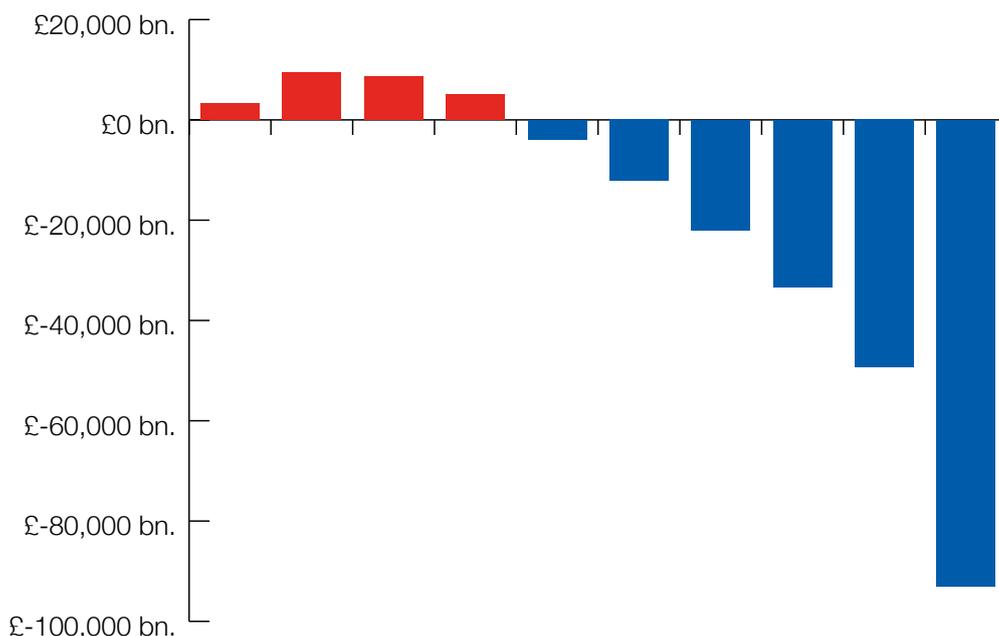


Figure 6 The real cost of benefits is low

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These facts represent the real truth about tax and benefits but this is not the public's understanding. Instead the public are persuaded that benefits are expensive, unsustainable and that they are primarily for 'them' - some other group. The reality is that benefits are low cost, essential and universal. Creating a system that is clearer is fundamental to creating a system that the public can understand - and support or challenge.

One further advantage of introducing clarity is that it would make the whole system more open to empirical testing. One of the unfortunate side-effects of the current approach 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 paralyses 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 (and benefit 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.

## 4. An Efficient System

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 will 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 fairer and clearer marginal tax rates 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
- ◆ Increase mildly the marginal tax rates of middle-earners and better-off

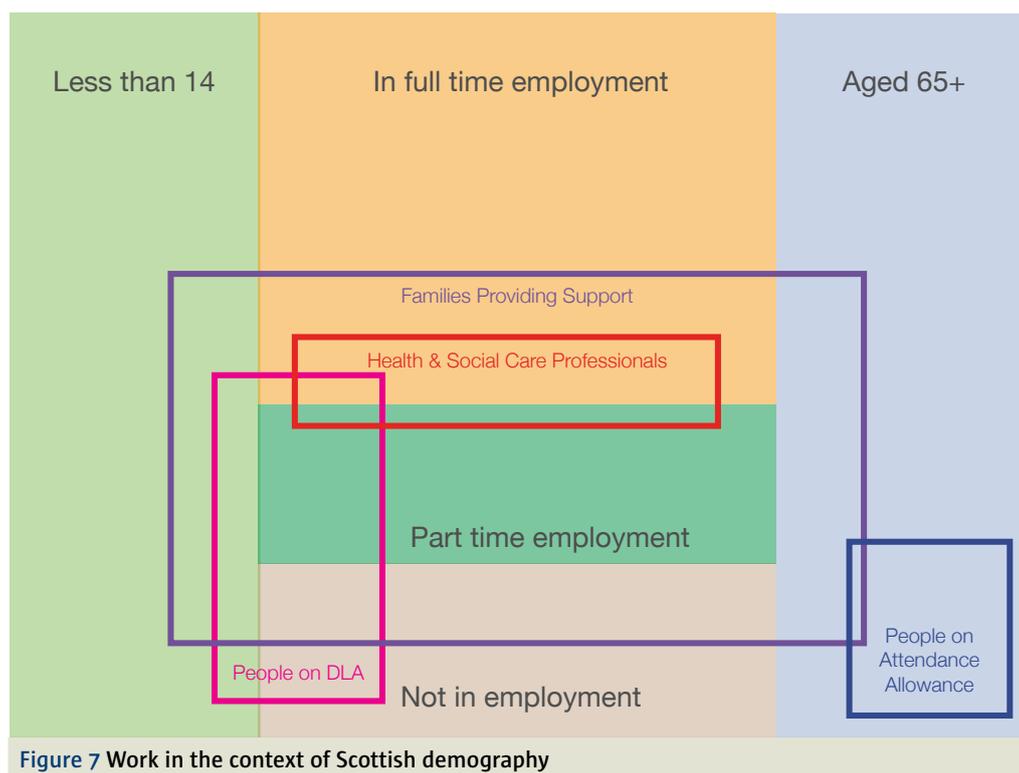
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The reason why marginal tax rates are important is that they determine the financial benefit of working an extra hour. It has been plausibly argued for instance that in 1979, when marginal tax rates for high earners were slashed, the impact was not 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 7, 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 –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.



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 many millions don't work, but many other 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 reduce radically the administration of the current system, and to increase significantly the reliability and consistency of 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)
- ◆ There are currently 37 IT systems in the DWP alone (in any reformed system there would only need to be one)
- ◆ 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 and 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:**

*Citizen's 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 and 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 8). A system that has been designed so that the poor do not get what they are entitled to is a fraudulent system.

**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.*

Danson et al. 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

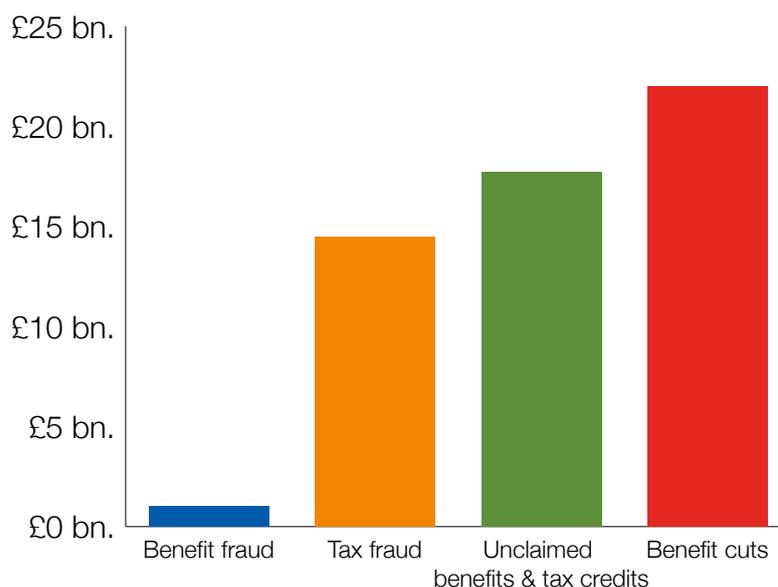


Figure 8 Benefit fraud in context

# 5. A Sustainable System

The welfare state was not designed in a vacuum, rather it evolved to meet social needs, and it was designed in the light of assumptions that reflected the beliefs and practices of those times. 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 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 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 (very) 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 arising for different nations seeking to build 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:

1. Protecting overall employment rates in the economy
2. 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 have been characterized by an enormous shift of power and resources towards the state to an extent 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. Simultaneously, 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 political 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. Internationally, today's welfare state has become increasingly ineffective at promoting social justice. In the early twenty-first century the growth in its size, relative to the whole economy, has either slowed or stopped (Wilkinson and Pickett, 2010).

Some foolishly advocate eliminating the welfare state, as if the underlying need for welfare has somehow mysteriously disappeared. Some 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 reduced 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 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. We need to find a different way of thinking about how to promote the most productive forms of economic and social activity.

Taleb (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 to be the result of 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, ensuring 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.

# 6. 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.

## 6.1 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. Government may succeed in pushing through many of its proposals; but it will fail to redesign the system in a way that is fair, and it will fail to make the UK a better place in which to live.

**Its 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
- ◆ 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. The poorest 10% of families (2.7 million) live on an average of £5,132 per year after tax (less than £100 per week). Many live on even less.

In relative terms, as Figure 9 demonstrates, for post-tax income:

- ◆ Average families have an income 5 times greater than the poorest 10%
- ◆ Richest 10% of families have incomes 14 times greater

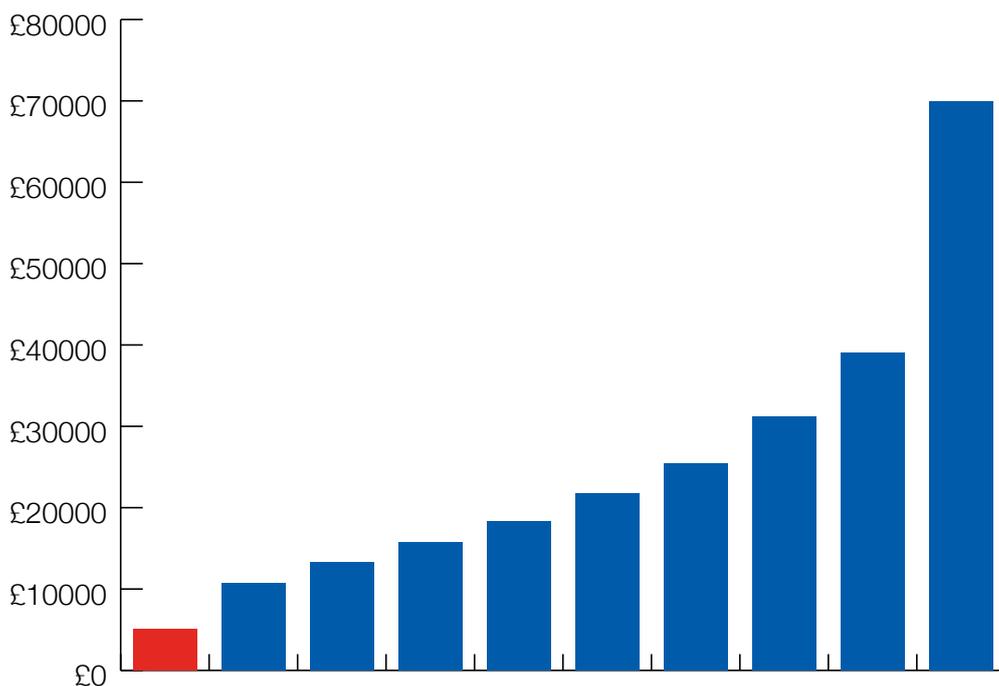


Figure 9 Poverty and inequality in the UK

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 the part 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, once again, to blame the poor for poverty. As ever, this is dangerous and stupid.**

## 6.2 UNDERSTANDING CONDITIONALITY

Universal Credit - even if it could work - would only deliver the most 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 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 approach 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.

## 6.3 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 10):

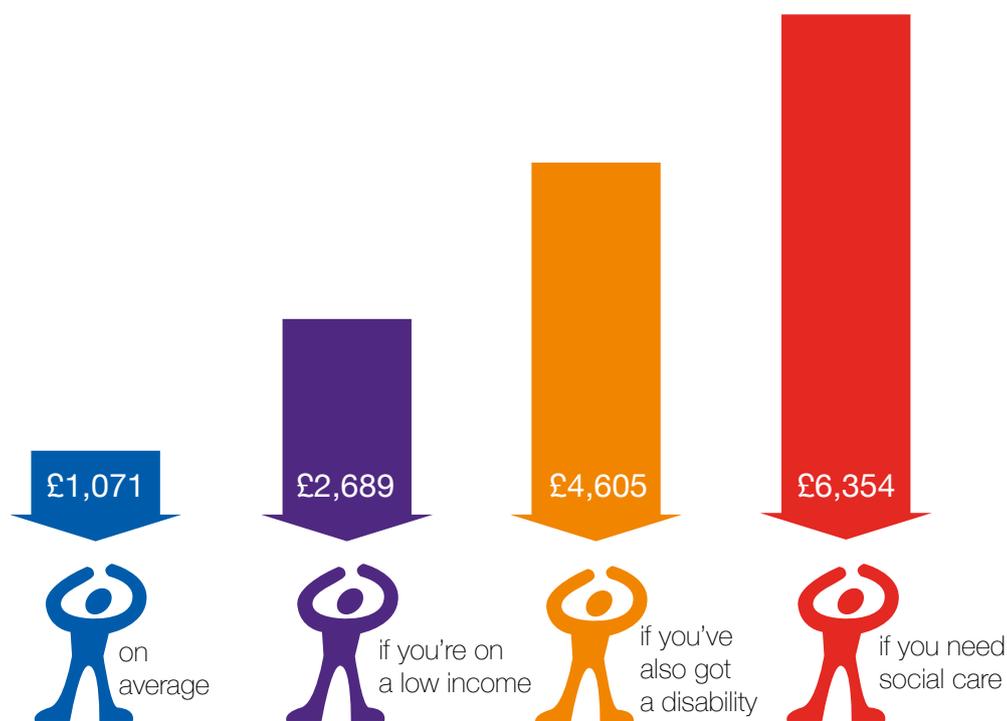


Figure 10 Where the cuts fall

**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 of '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 to reform 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.

## 6.4 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 £29,000. Like most groups (except the poorest 10% who pay more than 47% tax) they pay about 32% 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 working couple most 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. 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 'hard working families' 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 the interests of non-target voters (the poor and the rich) are minimised. 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.**

## 6.5 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. Just one example is provided by the Law Commission in England, when reviewing adult social care law:

*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.

## 6.6 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 £650 billion per year (HM Treasury, 2014).

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.

As we saw above (Figure 6) most public expenditure is on services and, while most of us benefit from these services (administration, hospitals, police, schools etc.) the actual money spent is spent on the salaries of those working in the services.

**In fact public sector salaries are generally reasonable median salaries (HM Treasury, 2013):**

- ◆ Central Government civil servants: £23,900
- ◆ Other public sector: £23,508
- ◆ Private sector: £20,617
- ◆ Local government: £19,086

Perhaps, if 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'. Many of the poor hardly benefit at all from the current system. In fact 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.**

Although Beveridge was keen to point out that income adjustment was only one part of what a decent welfare system should do:

*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

But now the balance has now slipped too far the other way. It seems that the political system much prefers to invest in services rather than to adjust incomes. 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.

## 6.7 THE 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 the changes 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 the 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.
- ◆ **New expectation** - brokerage industries (like travel, insurance) are being simplified into systems like moneysupermarket.com or confused.com. Outside the welfare state, citizens expect greater simplicity and greater control and find that, when they put their minds to it, they can 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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To find out more visit: [www.campaignforafairsociety.com](http://www.campaignforafairsociety.com)

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The Centre for Welfare Reform is an independent research and development network. Its aim is to transform the current welfare state so that it supports citizenship, family and community. It works by developing and sharing social innovations and influencing government and society to achieve necessary reforms.

To find out more go to [www.centreforwelfarereform.org](http://www.centreforwelfarereform.org)

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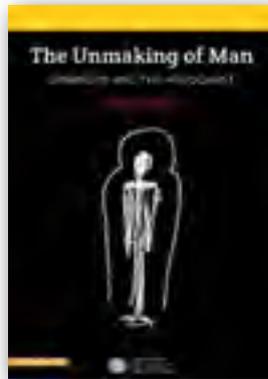
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