

JRF Programme Paper
A Minimum Income Standard

**COULD A 'CITIZEN'S
INCOME' WORK?**

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March 2015

This paper:

- identifies what would be the main implications of introducing a citizen's income in the UK;
- considers what this might mean in terms of redistribution and taxation;
- identifies changes in how the public and policy-makers think about the level and conditions attached to state support that would be required for a citizen's income to work.

The Joseph Rowntree Foundation (JRF) commissioned this paper as part of its programme on the Minimum Income Standard, which aims to define an 'adequate' income based on what members of the public think is enough money to live on.

Contents

	Page
Key points	3
Section 1 Introduction	4
Section 2 Citizen's income and the distribution of income: what is different	8
Section 3 Could an unconditional income for all citizens be politically and socially acceptable?	18
Section 4 A partial citizen's income as a stepping stone?	21
Section 5 Conclusion	25
Notes	29
References	30
Appendix 1: A Citizen's Income Trust assessment of the cost of a universal citizen's income	32
Appendix 2: Note on revised Citizen's Income Trust (2015 version)	35
Acknowledgements	36
About the author	36

Key points

- Calls for a citizen's income have raised the prospect of a simpler method for ensuring everyone has enough to live on.
- A citizen's income would potentially address the disadvantages of a more means-tested system, particularly its complexity and the rapid withdrawal of benefits with rising earnings which can create a disincentive to work.
- The introduction of a citizen's income would require changes in the way society views the role of the state in redistributing income. In the United Kingdom, it would require at least three seismic shifts in attitudes and policy:
 - an acceptance that everybody should be supported at a certain level, with no work-based conditions;
 - an acceptance of a greater role for the state in redistribution, involving a substantially higher rate of direct taxation (potentially 40 per cent on all income, or at least 50 per cent if means-tested housing support were to be abolished), or some equivalent means of raising much more money than is currently raised through tax;
 - potentially a *reduced* role of the state in ensuring that each citizen can afford particular essentials, notably housing and childcare, through income transfers, if a citizen's income replaced means-tested payments for these.
- A debate about the principle of a citizen's income may thus contribute to a long-term reconsideration of policies and attitudes towards state support, while recognising that an immediate implementation of a full citizen's income is unlikely to be feasible. It has, however, been suggested that a start could be made with a 'partial' citizen's income. A risk here is that a citizen's income contributing to, but not fully replacing, current levels of means-tested support could make the current system even more complex, if a means-tested top-up of the citizen's income was needed. It could also potentially lead to a reduction in basic entitlements, if such top-ups were abolished or allowed to wither.

Introduction

The terms 'basic income' and 'citizen's income' are generally used to signify an unconditional payment to every citizen of a country or territory, with some demographic differentiation in the amount (for example a different flat rate amount paid to each child, each working-age adult and each pensioner).

Interest in the idea has been rising on the basis of one or more of the following:

- dignity and human rights: the acknowledgement of everyone's right not to be destitute;
- simplicity: the presentation of what have hitherto been complex safety nets as a simple right to a basic income;
- avoidance of other features of means-tested support – including stigma, disincentives and barriers to worker flexibility. If you are guaranteed some baseline income, it is argued, this frees you up to build on this through paid work, including casual, intermittent or freelance work, without having to worry about the complex interactions with means-tested benefits. It becomes clearer to individuals that 'work always pays';
- liberty: a related argument has recently come from a different quarter – libertarians who seek to free people from involvement of the state in their lives;
- redistribution: in particular the prioritisation of fulfilling everyone's basic needs over excessive and insatiable private consumption by those who already have plenty.

This paper identifies what would be the main implications of introducing a citizen's income, distinguishing the main ways that this would change the overall structure and conditions of entitlements from those aspects that largely relabel the existing system. It considers potential barriers to the introduction of a citizen's income, and what choices would need to be accepted by voters for such a measure to be politically acceptable.

The paper accepts that the present welfare system suffers from strong negative perceptions and a consequent lack of political support, which has helped the implementation of recent cuts in the real value of benefit levels without obvious political fallout. If a citizen's income or any other reform could

command public confidence, this would help strengthen the underpinning of a system which ensures that nobody in the UK lacks a basic level of income.

However, the paper also argues that a citizen's income would require two big things to be accepted by the public:

- that everyone should be given some baseline level of financial support from the state, even if they choose not to do anything to try to earn money for themselves;
- that the basic marginal tax rate should be substantially higher than it now is, since otherwise almost everybody's net income from the state would rise, and there is no obvious way to finance this.

Politicians are likely to perceive both of these as unacceptable to voters, a view supported by evidence on social attitudes. It can be argued that both of these conditions could become more acceptable under a regime with a citizen's income than they are now. Persuading the public and politicians of these arguments, however, would not be easy.

A third big change ultimately implied by the idea of a citizen's income, less prominent in political debate but crucial to the fortunes of households on low incomes, concerns the way in which low-income households are currently helped to pay for adequate housing. The present system in the UK pays out a huge amount of means-tested support through Housing Benefit, which to a large degree has replaced the subsidisation of housing itself in guaranteeing affordable homes. For a citizen's income to achieve its central goal of removing the complexity and disincentives involved in means-testing, it would also need to replace this system; but under a system of largely market-based rents, it would not be easy to include a simple rent element in a citizen's income payment without creating shortfalls for some or large surpluses for others. The same consideration also applies to means-tested support given for childcare.

This paper notes that the considerable redistributive effect of a citizen's income is likely to be concentrated, not on the poorest households, but on those with modest earnings. Those wholly dependent on state support would be neither better nor worse off if a citizen's income were introduced at the level of the safety net. Those with modest earnings would benefit most from having the new non-means-tested payment, since any additional withdrawals in taxation from their income are likely to be lower than withdrawal of safety net benefits in the present system. This may potentially add to the public acceptability of a higher income tax rate, given that working people with modest earnings are seen as 'deserving'. Indeed, insofar as it led to more

people moving into work through improved work incentives, it could make a contribution to reducing out-of-work as well as in-work poverty. However, it would also mean that little or none of the large amount of additional money that would need to be raised through taxation would go to those who remain on the lowest incomes because they are unable to work or cannot find jobs.

Section 2 looks at the structure of a citizen's income and how it would differ, in terms of how income is distributed, from the present tax and benefits system; Section 3 considers how the nature and philosophical presentation of an unconditional citizen's income relates to its social and political acceptability; Section 4 looks at the realities of moving towards a citizen's income, notes cases in which 'partial' versions have been implemented and considers the potential nature and purpose of such partial approaches; Section 5 draws conclusions.

Box 1: Some recent advocates of a citizen's income

Support for a citizen's income has recently come from a range of quarters, including those who emphasise the state's role in redistribution and those who want to limit the presence of the state as much as possible. What unites these strands is the perceived drawbacks of existing systems for ensuring that everyone has at least some minimum amount to live on. Ever since the Elizabethan Poor Laws, the state has aimed to prevent destitution, but has given aid on a conditional basis that makes it closely involved in people's lives. A citizen's income is seen as a simpler mechanism, and the idea has seemed attractive at a time when confidence in the state to act reasonably with respect to individuals is far lower than it was a generation ago.

The Citizen's Income Trust in the UK and the Basic Income Earth Network internationally argue for a basic income as a right of citizenship. Torry (2013) sets out the arguments for such a measure, emphasising that it would not just reduce inequality but also save on administration, make the labour market more flexible and enhance individual freedom. He argues that a citizen's income is feasible at affordable cost. Others such as Collins (2015), as well as the UK Green Party, have taken up this idea, using the Citizen's Income Trust calculations to argue that a citizen's income can be feasible and affordable.

In the United States, some leading thinkers from both the left and the right have shown interest in basic income, and this has influenced recent debate. The Marxist sociologist Eric Olin Wright (2006) argues for basic income not primarily for its direct redistributive value but because of its effect on power relations between labour and capital – as it frees up workers to bargain with employers on a more equal footing than if their basic livelihood is at stake, and therefore redresses a highly unequal distribution of power. At the other

end of the spectrum, Charles Murray (2008) has argued from the right that a guaranteed income would allow the complex systems of the welfare state to be dismantled – replacing not just systems for income transfer but also the targeted health and social services programme. In the view of Murray and of American libertarians arguing for a basic income, the state’s entanglements with people’s lives has been so destructive that it would be better to give one flat rate payment to everybody, on which people can build, than to continue any government support based on people’s needs.

To the extent that a citizen’s income is designed to replace a vast array of benefits and/or services tailored to the needs of individuals and households, it may raise issues of ‘rough justice’ whereby people with very different needs have similar entitlements. Such arguments have particularly been raised in relation to people with additional needs, such as disabled people, on the basis that a citizen’s income could be highly inegalitarian, since people with additional needs require additional income to attain the same ‘capabilities’ as others (Christensen, 2009). Such considerations may not apply to a citizen’s income insofar as its role as an income baseline is separated from any measures to compensate households for the cost of disability. This is in a sense true with the proposals of the Citizen’s Income Trust, which do not replace benefits such as Disability Living Allowance; the illustrative calculations used in this paper also assume that the cost of disability is dealt with separately. However, one income replacement benefit – the ‘support group’ rate of Employment and Support Allowance – is paid at a higher rate to people who are unlikely to be able to get work, meaning that its recipients could lose out from a single rate of citizen’s income replacing all income replacement benefits.

One potential attraction of citizen’s income in the post-2008 climate is in relation to critiques of excessive consumption. A recent book on this theme (Skidelsky and Skidelsky, 2012) laments the failure of Keynes’ prediction that growth in productivity would lead to increased leisure as the general population reaches the limits of their material requirements, meaning that everyone has enough and well-off people do not need more. Its authors argue that one way to reorient society’s values towards those things that are essential elements of ‘the good life’ rather than the subject of greed, is to create a citizen’s income based on such essentials.

Citizen's income and the distribution of income: what is different

The main structural differences between citizen's income and an income safety net

Unlike a means-tested payment such as Universal Credit, a citizen's income is not withdrawn as the overall income of the individual or family unit rises. If a citizen's income were great enough to be paid to everyone, in place of the benefits and credits now paid only to people on low incomes, this would guarantee everyone a basic living standard, plus the opportunity to use any earned income to increase this standard.

There have been cases of (partial) citizen's incomes being funded from sources other than the earned income of citizens (e.g. oil in Alaska, aid in Namibia – see Section 4), but in practice in the UK there is little prospect of such a windfall. It seems reasonable therefore to assume that a citizen's income would be funded through income tax – the most equitable way of raising a large sum of public money, since contributions are more directly linked to what people can afford than other forms of taxation such as VAT. As well as equity considerations, the use of direct taxation to fund a citizen's income makes sense because the funding and benefits apply to the same revenue category – personal income – potentially allowing one to ensure that for the worst-off groups, the gain is at least as high as any losses.

The analysis in this section thus assumes that the additional costs of citizen's income are borne by personal taxation, and considers the joint effect of citizen's income and taxation on final disposable incomes.

For the simple case of a single person, a citizen's income funded by income tax effectively creates a 'negative income tax' schedule. This is the principle that everybody starts by paying a negative amount of income tax to the state (i.e. the state pays money to the individual), but earnings are taxed such that at a certain point this turns into a net positive tax liability. At its simplest (with a single tax rate and no tax allowance), this creates the following outcome:

Disposable income = citizen's income plus (earnings times (one minus tax rate))

For example, with a tax rate of 40 per cent and a citizen's income of £10,000:

- someone with no earnings receives £10,000, all from the state;

- someone earning £25,000 gets £10,000 in citizen's income and receives £15,000 in post-tax pay, so disposable income is the same as earnings, i.e. there is no net transfer to or from the state;
- anyone earning under £25,000 gets £10,000 from the state and gives back a smaller amount, 40 per cent of their income, in tax, so are net beneficiaries;
- those earning above £25,000 make a net contribution.

The negative income tax is presentationally different from the citizen's income – rolling together payments to and from the state into a single net payment. The two systems may also create different outcomes for multi-person family units, if for example negative income tax relates only to the taxpayer as an individual but citizen's income is related to family size. The important issue of unit of assessment is discussed below. However as a starting point it is easiest to consider the case of a single person as a unit of assessment.

How, in this case, does a citizen's income/negative income tax differ from the Universal Credit (UC)? Both involve an entitlement for people on no earnings. Both reduce the net amount someone gets from the state as earnings rise, with eventually the citizen owing the state money rather than the other way round. Under either system, this withdrawal of support as earnings rise could start either as soon as someone earns or after an initial allowance or disregard. But the crucial structural difference concerns the *rate* of withdrawal. A means-tested benefit like UC tends to be withdrawn fairly sharply, and potentially in parallel with income tax, creating a high marginal withdrawal rate (i.e. the rate at which additional earned income is lost to the state). For example, a single person with a rent of £100 a week will face the conditions set out in Table 1 under Universal Credit (assuming the rent does not exceed the maximum payable locally through UC, and ignoring the effect of Council Tax Support).

Table 1: The rate at which additional income is taken back by the state (marginal withdrawal rate) under Universal Credit (single adult, rent £100 a week)

Income range per year (2014/15 figures)	Effect	Marginal withdrawal rate
Zero to £1,332	Full UC (£172.40 pw)	0%
£1,332–£7,978	UC tapered	65%
£7,978–£10,000	UC tapered plus NICs*	69%
£10,000–£18,000	UC tapered plus	76%

	NICs* plus income tax	
£18,000–£41,868	NICs* plus income tax	32%
£41,868–£150,000	NICs* plus higher rate tax	42%
£150,000 plus	NICs* plus top rate tax	47%

*National Insurance Contributions

Under a negative income tax, or a citizen's income plus a single rate of income tax, this could be simplified as in Table 2.

Table 2: Marginal withdrawal rate under negative income tax/citizen's income plus single rate of income tax

Income range	Effect	Marginal withdrawal rate
Zero to any starting threshold	Citizen's income, no tax	0%
Above starting threshold	Citizen's income minus X% of taxable income	X% (tax rate, including national insurance)

It would also in principle be possible to preserve higher rates of tax. However, as shown below, a single flat rate under this system may well require a higher withdrawal rate than is paid by higher-rate taxpayers today, so in order to maintain the principle of higher earners having higher marginal rates, these rates would have to be increased substantially.

Before considering further details of such a change, it is worth noting the underlying implication of the differences between these two systems, and what it would mean for a transition to a citizen's income system. Under the UC system, the overall withdrawal rate is highest on a low income, as welfare support disappears. Under a citizen's income or negative income tax this would change (assuming that the income tax system did not impose a higher rate for anyone on a lower income than on a higher income). The maximum rate of withdrawal for people on low incomes would be no higher than the standard National Insurance/tax rate. Other things being equal, this would mean that:

- many people on low earnings would become significantly better off; and
- to pay for this, people on higher earnings would need to become worse off.

The most straightforward means of financing a citizen's income adequate to meet basic needs is to raise the income tax rate. People paying tax on relatively low incomes would end up better off, but above a certain income level the additional tax would become greater than the citizen's income payment. As shown below, if nothing else changed, to fund a citizen's income at present safety net benefit levels, it is likely that the combined tax and national insurance rate would need to be at least 50 per cent across the income range, much higher than the current 32 per cent combined basic rates of tax (20 per cent) and NICs (12 per cent). This would make it hard to retain a separate higher rate, since very high marginal rates may not yield additional revenue, due to avoidance and disincentives.¹ On the other hand, with a reduction or abolition of the tax allowance, the required basic tax rate would have to rise by less.

Such possibilities and calculations are discussed in greater detail below. It is important to stress that these provide broad illustrations of the kind of change in income transfers that would take place under citizen's income, rather than model its effects precisely.

What income tax rate would be needed to replace safety net benefits with a citizen's income?

A great advantage of a citizen's income over means-tested forms of income support is that it would get rid of the highest withdrawal rates for people on low incomes. This would be expensive. The most straightforward way of funding it would be to raise income tax rates. A simple question, whose answer may affect the attractiveness of a citizen's income, is therefore: what basic tax rate would make it possible to fund an adequate citizen's income, if other levels of public spending remained the same?

To answer such a question precisely would require detailed modelling beyond the scope of this paper. However, a previous calculation can help give indicative results.

In 2006, the Institute for Fiscal Studies modelled a version of that calculation, analysed by the present author (Adam and Browne, 2006; Hirsch, 2006). This asked what level of flat tax, combined with a 'universal' tax credit, would be fiscally neutral (it looked only at changes for people of working age). It produced two answers. First, assuming that National Insurance (NI) remained in its existing form, i.e. at a flat rate with a lower and an upper earnings limit, the required flat tax rate would be 37 per cent, rather than (at that time) 22 per cent for basic rate and 40 per cent for higher rate taxpayers. This would have produced combined tax and NI withdrawal rates of 48 per cent for basic rate and 38 per cent for higher rate taxpayers, which would seem unfair. Second, if

the NI rate was brought into the tax system and a single combined rate was set (effectively abolishing the upper earnings limit for NI), the combined rate would need to be 46 per cent for everybody.

From these calculations we can infer that ***a citizen's income set at existing safety net levels would require the state to take about half of all earned income above existing tax and NI thresholds.*** This is a radical change, especially for the two-thirds of taxpayers neither getting tax credits nor paying higher rate tax, who at present lose just under a third of additional earnings to the state.

(Note that these calculations do not take account of administrative savings from having a simpler system; these have been claimed by advocates to be around £3–5 billion (Citizen's Income Trust, 2013; Collins, 2015), the equivalent of about 1p on the basic rate of income tax, which would not fundamentally alter the results.)

Moreover, this calculation if anything understates the requirement, because:

- It does not cover Housing Benefit. If this were kept as a separate, means-tested entitlement, this would fundamentally undermine the simplicity of a citizen's income system, as low-income families would still rely on a benefit to make ends meet that falls sharply with rising income. The alternative would be to include a housing allowance in the citizen's income; this would increase the required tax rate immensely. It is hard to know how it would be set. An allowance based on the individual housing costs of the household would raise the awkward issue of how much to give well-off people buying or renting expensive homes, and on what basis. A flat rate allowance would need either to give a big windfall to people on relatively low rents (and to people who presently earn too much to get housing support), or be so modest that low-income people with medium or high rents would suffer. It would also create very different outcomes for people in more and less expensive housing areas.
- Since the calculations were made, the tax allowance has risen considerably. This reduces the base of taxable income, meaning that if the allowance remained at its present level, the tax rate needed to raise a given amount of revenue would be higher than in 2006.

We must also bear in mind that the above calculation is based on a citizen's income at the level of the present safety net (Income Support for adults; Child Tax Credit for children; this analysis did not consider pensioners), which for working-age households is considerably below what they need for a minimum acceptable standard of living. According to the Minimum Income Standard

(Davis *et al.*, 2014), benefits are about 40 per cent below what is needed for families with children and 60 per cent below what working-age adults without children need.

How much would it help to abolish tax allowances?

The most radical change in the tax system that could potentially support a citizen's income while limiting any increase in tax rates would be to tax all earned income, rather than having allowances of income not subject to tax and to National Insurance contributions. At present, this would reduce take-home pay by up to £2,800 per worker (for someone earning above the tax allowance). Since a citizen's income based on current benefit levels would pay at least £3,739 a year (single person's Income Support) to an adult, the abolition of the allowance would not in itself create any net losers among taxpayers – although for someone with very low earnings on Universal Credit, below the level at which UC starts to taper (the disregard) and currently not paying any tax, there would be a net loss equal to newly taxed income. Put another way, if the citizen's income is seen as a negative income tax, there is arguably no need to have an income tax allowance, since net taxation only becomes positive once earnings reach a certain level.

Several attempts have been made in recent years to consider what tax rates might be needed to fund a citizen's income at present safety net levels if the tax allowance were abolished. The Citizen's Income Trust initially suggested that this would be possible on present tax rates (Citizen's Income Trust, 2013), but this was based on some aspects of basic income that were below the current safety net levels and on certain assumptions about raising money from other sources. Appendix 1 considers what income tax rates might be needed if these assumptions had not been made, and suggests that they would add about 8p to income tax, meaning that all income (without any tax-free allowance) would be subject to a combined levy of at least 40p in tax and National Insurance (including the 20p tax and 12p National Insurance rate presently imposed). A further calculation from the Citizen's Income Trust (Torry, 2015) estimated that, in order to avoid losses for anyone on a low income, a 10p increase in *both* the basic and the higher rate of income tax would be required, and that even this would not cover the full cost of the citizen's income (see Appendix 2).

As argued elsewhere in this paper, the above calculations present only part of the picture because they give no account of how housing costs should be covered. In contrast, Miller (2010) estimates the tax rates needed without tax allowances if the citizen's income partially implemented the Minimum Income Standard including basic housing costs.² She estimates that such an entitlement would require a 57 per cent combined rate of tax and National

Insurance to deliver an income at the Minimum Income Standard, or 42 per cent for a lower, 'partial' citizen's income (worth about 13 per cent less than the MIS rate) Yet even this calculation is likely to be a great underestimate. It does not appear to take account of the fact that income tax is used for public expenditure other than income transfers, and may therefore seriously underestimate the rate required without making cuts in public services. (Tax and National Insurance contributions currently raise about £260 billion a year, far more than is spent on benefits and tax credits).

At a very generalised level, one can think about the cost of a housing allowance in the following way. Minimum Income Standards research (Davis *et al.*, 2014) shows that a basic housing cost for a single adult is similar whether renting privately or in social housing, at just over £70 a week. Giving each adult such an allowance in citizen's income would double the cost of the scheme compared with the basic non-housing amounts on which the Citizen's Income Trust (2013) has modelled it (see below), equivalent to Income Support levels. Including the housing element would cost about £60 billion a year if only given to adults living in rented housing, or £180 billion if given to all adults. (Note that the first of these policies would be hard to justify in the framework of a citizen's income, since the issue would arise why a low-income home-owner should get a payment unavailable to a high-income tenant.) This compares with £23 billion currently spent on Housing Benefit, and would require extra revenue equivalent to adding about 9p to the basic rate of tax even if only paid to tenants. To finance such a payment to all adults would require the take from income tax to be more than doubled.

Taking all the above evidence together, it seems reasonable to conclude that a citizen's income set at least at present safety net levels would require direct taxes taking at least 40 per cent of all earned income if housing support were not included and well over half of all earned income if it was. This would be a very different tax settlement to the present one. Some particular effects at different points in the income distribution of levying even 40 per cent tax with no allowance (unless some means-tested supports were retained) would be the following:

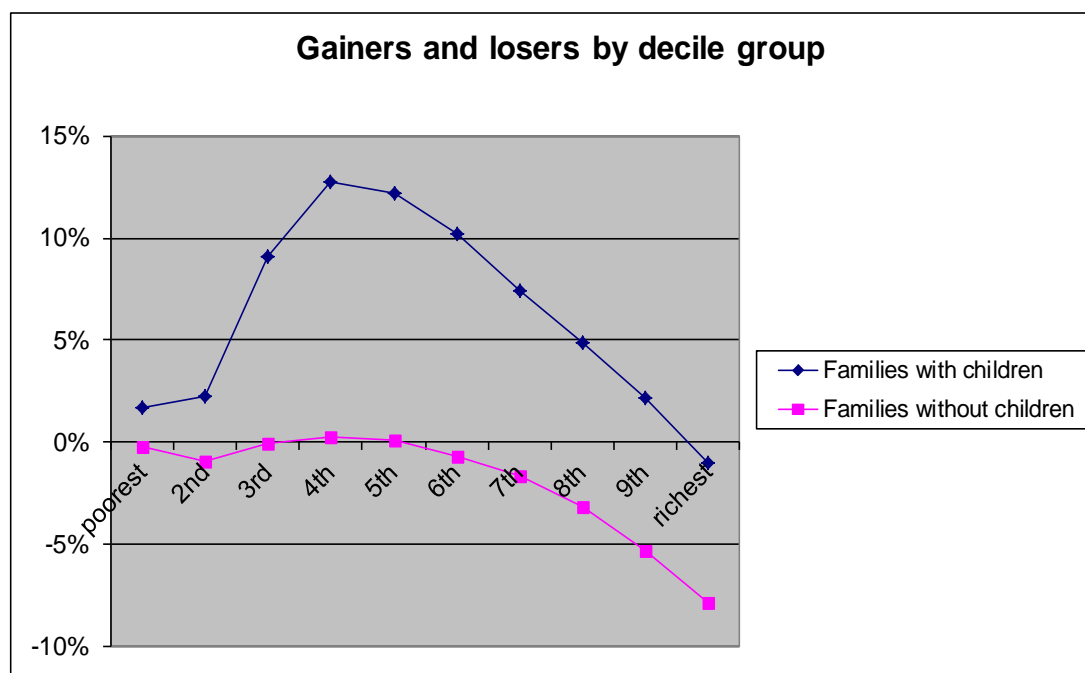
- For anyone earning between zero and the threshold at which Universal Credit starts to be withdrawn, this would cause a loss of income equal to 40 per cent of earnings. For example, a lone parent working part-time who earns £3,000 a year (or £9,000 if not receiving Housing Benefit) is allowed to keep all that income under Universal Credit but would lose £1,200 (or £3,600) under this citizen's income scenario.

- A single person earning exactly the personal tax allowance of £10,000 would be slightly worse off. They would receive around £3,800 in citizen's income and lose £4,000 in tax and National Insurance.
- Single people earning more than the personal allowance would all be worse off, because marginal tax rates would be higher.
- Many low-earning families with children would be a lot better off, because they would start with the same entitlement and have income withdrawn much more slowly, even with a higher tax rate, than it is at present under Universal Credit. Unlike for single people, the effect of abolishing the tax allowance would not cancel out the benefit of keeping basic UC/citizen's income entitlements, because family-based entitlements are higher.
- If tax allowances were abolished and the existing basic rate tax threshold of about £32,000 a year was retained, the higher rate tax would be imposed on incomes at this level rather than £42,000, so people not much above average earnings would be paying higher rate tax. An important issue here is whether the upper earnings limit for National Insurance stays at about £42,000. If it is, this would mean people earning £32,000– £42,000 would pay 40 per cent tax plus 12 per cent National Insurance, more than those earning above this level. Lowering the upper earnings limit would imply an additional cost on top of the calculations referred to here, and could mean a further increase in either the basic or the higher rate of income tax.

The overall distributional effects would include, but not be restricted to, a redistribution of income from better to worse off groups. There would also be a significant redistribution from people without children to those with children among lower earners, and also some losses for those with very low part-time earnings. Finally, for reasons explained in the following section, among groups presently receiving transfers from the state, couples would do relatively better than single adults (with and without children).

An earlier calculation (Hirsch, 2006) of the effect of a flat tax, shown in Figure 1, taken illustrates one aspect of the pattern of winners and losers that is likely to apply to some extent to any citizen's income system. This is the dual characteristic of having money transferred from better-off families to those on low income and in work (that is, not the poorest deciles) and the favouring of those with children relative to those without. Both of these outcomes are likely to result from any reform that continues to give higher entitlements to low-income families than single people but discontinues the steep withdrawal of this support through an income taper.

Figure 1: Average gains and losses, by income and family type – flat taxes and national insurance rate with universal tax credits, 2006



We should note that all the above calculations make the simplified assumption of no behavioural change. Knowing what would actually happen to earned incomes as a result of a citizen's income is very difficult, but is likely to affect outcomes quite profoundly.

The importance of units of assessment

In our present tax and benefit system, family-based entitlements to benefits and tax credits sit uneasily alongside individual taxation. A citizen's income goes some way to resolve this, by allocating each adult and child an individual entitlement.

It is important to note that an individual entitlement not only treats each adult as economically autonomous, but may also reduce the sensitivity of family support to actual family need. A common rate paid to each adult and to each child, for example, would not take account of economies of scale within couples and within families with additional children.

One option would be to accept this imperfection. So, for example, a single person out of work would become relatively worse off, because the higher per-person cost of living alone would not be taken into account. Another possibility would be to have a 'basic income' system that took family circumstances into account rather than giving the same to each citizen in a

given age range. A drawback of this would be that the state would need to know (and presumably have the right to investigate) whether every adult in the country was cohabiting with someone with whom they shared expenses.

The advocates of citizen's income generally opt for the first solution. This creates a social support system that gives more autonomy to individuals rather than providing for couples as a unit, but by so doing it necessarily redistributes income from single families to couple families, producing support that is not proportionate to household need because it does not take account of economies of scale.

Could an unconditional income for all citizens be politically and socially acceptable?

A citizen's income and attitudes to conditionality

The starkest arguments for and against a citizen's income counterpoise the following points of view:

- (i) Every member of society has a right to basic subsistence and to live in a way that does not subject them to social exclusion. The state should be giving people access to a basic income unconditionally, just as it gives access to basic education and healthcare. It should, however, do so in a way that enables them to build on this basic income through market earnings, rather than penalising them for working through a means test.
- (ii) People only have a right to be supported if they are unable to support themselves, and therefore any right to a basic income must be conditional on them making an effort to do so. A citizen's income sends the wrong message; that society owes you a living whether or not you make an effort. The state has no right to take from people willing to work for a living and give to those who are not.

It is beyond the scope of this paper to discuss the philosophical underpinnings of these viewpoints. It is clear, however, that present social attitudes and political perceptions do not favour the first of these. On the contrary, surveys such as the British Social Attitudes Survey have shown a long-term hardening of attitudes towards whether people deserve to be supported if they do not work – even under the present system, where many people out of work have only conditional entitlements to benefits (NatCen, 2012).

An important part of the citizen's income argument (especially in Torry, 2013) is that under different conditions, these attitudes could change. This view asserts that (i) people in general wish to work and (ii) under a citizen's income above which barriers to casual, lower-paid and intermittent employment were removed, this reality would become clearer, as people on low incomes would be able to better themselves more easily by working in these ways.

Such a change in attitude may not require members of the public to explicitly drop any moral objection to people being supported without choosing to work. People may still object to supporting even a small proportion of people who chose to live in this way. However, if in general a citizen's income made the reward of effort so clear cut that almost everyone visibly made an effort to

work, that objection may come to feel less important. It is hard to judge under what conditions this could occur, but allowing most or all of the first portion of earnings to be kept unconditionally could be an important step. A potential difficulty with this is how citizens view the taxation of income, which is also a form of means-tested withdrawal. If, as suggested above, the funding of a citizen's income may require the abolition of tax allowances combined with some raising of the income tax rate, this difficulty will be more serious. Having to report the first pound of your earnings to HMRC and then having, say, 40p of it taken away might not create quite the incentives that advocates intend.

A citizen's income and housing autonomy

One attractive feature of a citizen's income in terms of public opinion is that it potentially gives individuals more responsibility and autonomy over their actual living standards, over and above a basic minimum. The UK welfare state has often been seen as too paternalistic, going beyond just the provision of a basic means of subsistence. An example is the way in which Housing Benefit has sought to override the market by paying the rent of low-income households, to some extent removing an incentive to 'shop around' for an affordable property by supporting the rent that people choose to pay, up to certain limits (although these have become much tighter in recent years). An alternative approach might be to say that while guaranteeing a fixed level of basic income, the state should leave it up to the citizen to make housing choices, and the market will ultimately provide options for a range of budgets.

Such an approach, however, may risk creating levels of housing need and homelessness that society finds it difficult to accept. Two lessons from the introduction of local housing allowances in 2008, which were intended to give low-income tenants more of a stake in finding economical rents, point to potential difficulties. One is that landlords do not in general appear to have changed their rents as a result of them not being fully funded by the state (Institute for Fiscal Studies, 2014), so it is tenants who in most cases have taken the hit. This shows that the market may not respond as predicted. The other development shows that public opinion and public policy may not respond as predicted. Whereas an allowance was originally intended to be a flat rate payment enabling tenants either to gain or to lose as a result of what level of rent they could find, this eventually gave way to a rate that had an *upper limit* to the rent level that could be reimbursed, but with tenants on lower rents getting only what they pay; it was considered 'wrong' that tenants should 'cash in' on an allowance higher than the rent being paid. This revealed a deeply ingrained attitude that the autonomy of an individual getting state support should be limited, lest they are allowed to become too well off at 'taxpayers' expense'. To work well, a system of support based on a citizen's income would need to challenge such attitudes.

None of these considerations about housing can be considered in isolation from the actual availability of housing at reasonably affordable rents. Long-term improvements in this respect, whether through a general expansion of supply or through new housing subsidies, would make it much more feasible to consider a citizen's income with a modest allowance for housing, without leaving a large proportion of the population unable to afford housing of an acceptable standard. Without such a change, it seems unlikely that a government would walk away from providing targeted support to those unable to afford acceptable housing, risking a return to slum conditions that were largely eradicated in the UK in the post-war years.

Citizen's income and lifecycle redistribution

It should be noted that different arguments apply to a general citizen's income and one directed at selected demographic groups such as children and pensioners.

Child benefit has been a universal form of citizen's income (until it started to be means-tested in 2013), and the state retirement pension, though contributions dependent, also has many features of a citizen's income. However, the justification for these benefits and their universality rests on redistribution across the lifecycle and across demographic groups. While the contributory aspect of the retirement pension sends the message that it is a reward for effort, even without this condition it could be seen as a collective transfer from people at one stage of life to another. This 'horizontal redistribution' is wholly different philosophically from the 'vertical redistribution' on which a universal citizen's income relies. Society seems prepared to accept, up to a point, that the state should help horizontal redistribution by making everyone pay into a pot at some times of their lives so they can draw out at others. What is much more controversial is whether people have a right to draw out, unconditionally, across their lives, paid for necessarily by those who earn enough to pay in.

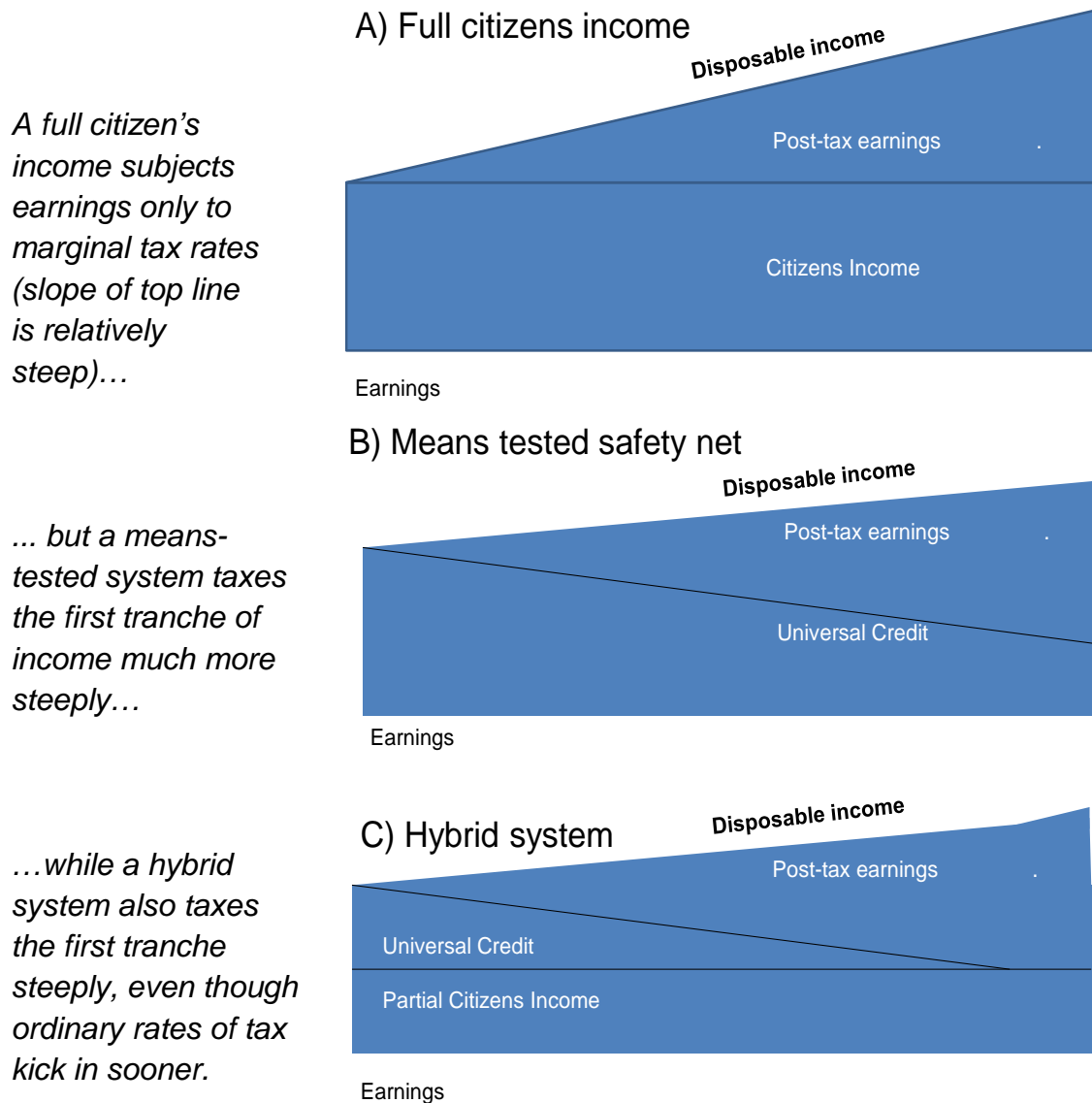
A partial citizen's income as a stepping stone?

Most current advocates of a citizen's income acknowledge the difficulties with moving instantly to a situation where each citizen gets an unconditional payment that allows them to live at some minimum level. They suggest that a partial citizen's income could be a first step towards this goal.

In thinking about this concept, we need first to distinguish two aspects of what it might mean for such an income to be partial. One version is that it might provide the same level of basic income as current safety net benefits, which it would replace, but not necessarily provide income that permits a truly acceptable standard of living, such as the Minimum Income Standard. As shown above, this in itself would require a major transformation of taxes and benefits with big winners and losers. However, it would achieve the objective of getting rid of means-testing. A truly partial version, on the other hand, would be the payment of a smaller contribution towards living costs that (like Child Benefit) is not intended to be the sole income paying the living costs of the individual involved. Crucially, this would require a parallel system of means-tested support to top up the incomes of those who need it. Torry (2015) suggests that this could be a first step towards a full citizen's income, and also a backup to ensure that nobody with a low income loses out in such a transition.

A significant risk in superimposing means-testing on a partial citizen's income is that it does not get rid of the complexities or disincentives that a citizen's income is intended to overcome. Figure 2 shows that if it ran in parallel with UC, it would float people off UC earlier than otherwise, but many people would still be subject to the means-testing regime. And without a plausible plan for improving the citizen's income to make UC unnecessary, the complexity of having two parallel systems could create problems – including potentially greater stigma and lower take-up associated with the means-tested element, and perhaps even a political pressure to lower the safety net to the citizen's income level. An interesting parallel has been the provision of a state pension which, on its own, has not met minimum needs, requiring a pension credit top-up. Pensioner poverty in recent years has to a large extent been associated with a reluctance among those who feel they can 'get by' on the basic pension to take up this means-tested supplement.

Figure 2: A partial citizen's income system would not end high withdrawal rates (*simplified diagram, ignoring disregards*)



It could therefore be risky to start moving towards a citizen's income without a credible plan about how to make sure it provides at least the same baseline as existing safety nets. This makes it problematic to ignore its true cost, the implications for the tax structure and the potential political acceptability of one day paying a full citizen's income. An alternative approach would use the concept of a citizen's income to stimulate a long-term debate about how one might re-order social protection, and to introduce any partial citizen's income only as a stepping stone on a clearly agreed route to a full one.

Note that in the UK context any citizen's income that ignored the issue of housing costs would end up effectively being a partial scheme. This is because there is such a heavy dependence on means-tested support to

enable people to pay for housing that means-testing would remain important as long as this were not dealt with. As set out above, there is no obvious way in the context of existing housing markets of bringing in housing costs, since a flat rate allowance adequate to cover some people's relatively high rents would be enormously expensive, while a more modest scheme replacing targeted support could leave many households unable to afford adequate housing.

Partial citizen's incomes in other countries

Advocates of a citizen's income have pointed to other countries which have a partial citizen's income – i.e. one that is not intended cover full living costs even at a basic level. All of these are in very special circumstances that have limited relevance to the UK – particularly because none have drawn on additional resources from general taxation, and none have gone anywhere near providing a living for their recipients.

In Alaska, citizens each get a variable amount each year – averaging around \$1,100 (about £700) between 2010 and 2012. This money comes from taxed oil windfalls, via the Alaska Permanent Fund. This gives only a fraction of an adequate basic income, to a population similar to that of Leeds in a territory almost as large as Western Europe with vast oil wealth. The fund is explicitly intended to spread current state wealth to future generations, because oil reserves will not last forever. It can thus be seen more as a redistribution to posterity than a means of sharing wealth to provide an adequate baseline for all citizens.

A contrasting citizen's income scheme was trialled in 2007–2009 in two villages in one of the poorest countries of the world, Namibia. This was a donor-funded project giving each man, woman and child about \$12 a month, unconditionally. This helped tackle malnutrition in those villages for the period of the experiment. Unsurprisingly, given that the amount given is below the very meagre globally-defined threshold of extreme poverty (\$1 a day), the payment did not deter people from working. The Namibian government showed no interest in prolonging or extending the experiment.

In a different kind of example again, Iran makes a cash payment of about \$33 a month unconditionally to most of the population. This payment again does not provide even a subsistence income, but does provide some sort of baseline on which to build. The payment has partially replaced heavy subsidies to basic commodities such as bread and fuel including petrol, subsidised out of oil revenues, which had been criticised as heavily distorting consumption patterns. Thus, as in Alaska, this is to a large extent a method of distributing a windfall.

Together, these examples illustrate two rather unsurprising things: giving people unconditional free money is popular and people are not deterred from working by a payment that does not come close to meeting their basic needs. However, their nature suggests a high degree of caution in drawing any conclusions for the application of a universal citizen's income for the UK whose purpose is to replace safety net support. There is no modern precedent for funding social support in this way.

Conclusion

The simplicity of a citizen's income as a baseline of support for everybody is appealing. Just as modern societies seek to guarantee everyone a minimum standard of education and healthcare, so they might wish to prevent destitution by providing a basic level of income for everyone.

Giving a minimum level of income through an unconditional cash payment would avoid a host of disadvantages of existing safety nets. These require the state to get closely involved in people's lives in ways that can interfere with human dignity and potentially create barriers to people bettering themselves through their own efforts. An unconditional baseline would be something that people could build on, freed from such interference.

However, this paper has pointed out some fundamental issues that need to be addressed before a citizen's income could be implemented in practice in the UK. These are not just practical issues, but concern the kind of income redistribution system that the British public wishes to buy into. In particular, it would require us to consent to be taxed much more, to change the prevailing social attitude about the conditionality of support for working-age people outside work and to accept a much greater form of 'rough justice' in meeting certain basic needs such as housing.

In considering philosophically the issue of whether a basic income should become part of universal state provision, we must bear in mind that income is not exactly like other things that are provided free by the state, like schooling or public parks. The key difference is that households not only *require* income, but also *generate* income. Since money for a citizen's income needs to come from income that has been earned somewhere, it would be problematic if payment of such a benefit in any way reduced the amount of income generated, and hence available for public transfer or private consumption. Even if few people who now work were encouraged not to do so by an adequate citizen's income, questions would still arise about how it affects people's choices. It would certainly not be neutral in relation to work incentives. Abolishing the personal tax allowance in order not to have too high a tax rate would mean that the state would start taking money away from people sooner than it does now. Preserving a higher tax-free allowance could require setting much higher income tax rates, which could discourage people from earning above this threshold. The precise rates required depend on the precise system design, but it is unrealistic to pretend that there are any easy solutions.

Most importantly, public debate should be based on an acceptance that to make some people better off will require others to be worse off. A citizen's income would certainly transfer substantial additional income to those families on modest earnings who presently have means-tested entitlements sharply withdrawn as earnings rise. This transfer has to come from somewhere – and it is most likely to come from middle to high earners, and from people without children on a range of incomes, through increased taxation. This paper has not tried to model precisely how much extra taxation would be needed, but has illustrated how it is likely to subject most of the population to at least the same high rates presently paid only by higher earners. Moreover, it has argued that in order for a citizen's income to cover housing costs, these tax rates would need to be a lot higher still. The alternative of retaining a means-tested method of housing support undermines the fundamental objective of a citizen's income to simplify support and avoid households being dependent on a means test for basic support.

These realities raise two significant political questions – one general and one more specific.

The general political question is whether the population could come to accept far more redistribution through income taxes than at present, in order to make a citizen's income a reality. The most serious barrier to this will always be the argument that it is taking from those making an effort and giving out money unconditionally, including to those who do not make such an effort. This indeed is one of the problems with the present system that citizen's income aims to address: it improves the reward for earning a little compared with earning nothing. However, a citizen's income that caused all workers to pay 40–50 per cent of their income to the state, while providing an income to some people who do not work and are not required to do so, potentially recreates arguments about perverse incentives in a new form.

In practice, the main new beneficiaries of a citizen's income would be low-earning working families with children, who may be seen to be 'deserving'. However, this is the kind of nuance that can get lost in political debate. Recent cuts to Universal Credit (in real terms, by capping increases) which affect working and non-working families on low incomes alike, have been presented as cuts to the 'welfare bill'. An increase in some future citizen's income paid for by higher taxes may be hard to justify without a very different kind of debate. Part of the challenge in mustering support for such a measure would be to change the present public discourse that associates low-income families with 'welfare dependency'.

A more specific distributional position concerns how much support to give to families with children at various income levels. The social desire to avoid child

poverty creates an obvious case for arguing that families with no earnings should get enough from the state to raise a child at an acceptable level, and that this support should be more than received by those without children. However, it is less obvious that the additional resources given to support a child should aim to cover their full costs even when the family earns decent wages. The fact that child benefit is presently not designed to cover those costs reflects the idea that families who can afford it should pay for most of the cost of children. Under a citizen's income, a childless person on average earnings may ask why their taxes should be making just as great a contribution to children's costs for families on average earnings as they do for families with no earnings, in principle to covering the full basic cost of a child.

Introducing a partial citizen's income does nothing to address these difficulties, in terms of making it easier to argue for a full version in due course. Potentially, it creates a complex two tier system, with many people still subject to means testing. It could also put pressure on the level of means-tested benefits before a citizen's income adequately replaces them. By retaining the complexity and disincentive of a partial means test, it may do little to demonstrate the simplicity of a citizen's income system.

The distributive principles of citizen's income and the direction of policy

This paper has pointed to some severe difficulties that would be encountered in any attempt to consciously move towards a universal income transfer to all citizens. However, it is also worth noting that, leaving aside issues about conditionality and entitlement, policy-makers could choose to move closer to or further away from the underlying distributional structure of a citizen's income. As the paper has pointed out, the most significant difference between this structure and existing income transfer structure is that it avoids rapid withdrawal of benefits at low incomes and in exchange would have to have a steeper general taxation rate.

Universal Credit is to some extent a step towards a more unified *structure* of income transfers: it abolishes separate systems for in-work and out-of-work claimants and has a single taper rate for the main benefit. This looks to some extent like a negative income tax. However, by retaining a twin track approach of tapering benefits more rapidly than the basic income tax rate (and allowing both kinds of withdrawal to be simultaneous for some people), it remains a long way from the negative income tax idea. Universal Credit offers the *potential* for a withdrawal schedule closer to that of a citizen's income, and specifically for reducing high taper rates, funded by a lower tax allowance. But it is worth noting that since 2010, all announcements have moved in the

opposite direction, on both counts: the basic taper rate has been increased, as have tax allowances.

Nevertheless, the existence of Universal Credit makes the ways we withdraw entitlements more clear-cut and visible. Using tax allowances to help people on low incomes clearly excludes the people who have the least (and pay no tax). The inadequacy of existing safety net incomes, combined with the living standards crisis, which have made even many people who are working but on modest earnings unable to make ends meet, could in principle lead to greater support for reducing their effective tax rates. In the long term, attempts to reduce the poverty trap through a serious reduction in tapers under Universal Credit could start to make a redistributive system similar in structure to a citizen's income more thinkable than it is today.

Notes

- 1 This relationship is known as the 'Laffer curve': at some point below a 100 per cent, a higher tax rate stops producing additional revenue. There is no consensus about the point at which this occurs, but few economists would think that a tax rate of, say, 70 or 80 per cent would be productive.
- 2 Based on a citizen's income set at the MIS requirement for vulnerable groups including children and pensioners, but for working-age adults setting it at a level that would need topping up with full-time minimum wage earnings to reach MIS.

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Appendix 1: A Citizen's Income Trust assessment of the cost of a universal citizen's income

One assertion that has sometimes been made by advocates of a citizen's income is that it could be implemented for little or no net cost. Commentators such as Collins (2015) repeat this assertion without necessarily explaining how it would be possible to do so, given that some people would be made significantly better off. Logically, while the gross cost of a citizen's income set at the current safety net level would be partly offset by what those already getting this amount receive, a system that allowed others to keep the payment without regard to other income would have to be paid for from somewhere. No advocate has suggested that administrative savings, worth perhaps 2 per cent of the gross cost of a citizen's income, could cover anything like the full cost.

The following is an example of how what looks like a 'self-financing' scheme could actually be viewed otherwise. It is included here as a caution to illustrate how there may be more trade-off and costs of a citizen's income than is sometimes claimed, and to suggest a degree of caution about imagining that it could create winners without significant losers.

The Citizen's Income Trust (2013) makes a calculation that appears to show that a citizen's income equivalent to present safety net benefits could be financed entirely by replacing those allowances and abolishing personal tax allowances for income tax and National Insurance contributions. This in itself would not amount to self-financing, since people's tax liabilities would rise, sometimes by more than the benefit gain. Moreover, the following are other factors that arise from this calculation:

- The citizen's income allocated to each child is based on the Income Support rate for young adults, which is significantly lower than the present maximum child tax credit plus child benefit rates (which are themselves below minimum needs as defined by the Minimum Income Standard (Davis *et al.*, 2014)). This would reduce the baseline income for most out-of-work families.
- The calculation assumes that working tax credit would not be necessary, but citizen's income does not cover the substantial childcare support incorporated within the credit, so in practice savings are being overestimated.

- The calculation makes an erroneous assumption about how much additional spending would be needed to set a citizen’s pension at the present pension credit guarantee level – causing a substantial underestimate.
- The pension calculation is also distorted by including women aged 61–65 in the savings from replacing the existing pension but not in the cost of the future citizen’s income. This is not comparing like with like.
- The calculation assumes that higher rate tax relief on pensions is phased out. There are good arguments for doing this, but a citizen’s income and the abolition of tax allowances would not substantially raise higher rate taxpayers’ income, so this cannot be considered a linked policy. Including non-linked savings in the equation again does not compare like with like. Such savings could potentially be used for other purposes, including for example raising the very inadequate safety net benefits presently paid to non-working adults without children.
- The calculation also relies on phasing out student grants and loan write-offs. It is true that students would benefit from a citizen’s income, but this would only slightly reduce the need for debt, given that (a) most of it comes from tuition fees and (b) weekly Income Support rates are far lower than maintenance loans on a term-time weekly basis.

Table A1 gives some examples of how much more it would therefore cost to finance the scheme. All calculations are based on 2012. *Note that this does not aim to create a comprehensively corrected calculation of the scheme, which would require detailed expert modelling. Rather it shows examples of additional costs that would prevent the scheme from being ‘cost-neutral’.*

Table A1: Cost of financing a citizen’s income (CI) scheme

Item	Problem	Calculation	Additional annual cost
CI for 0–15-year-olds	CI rate based on young adult IS, but much less than Child Tax Credit plus Child Benefit	£21 extra per week would avoid losses in most cases. Multiply by 11.9 children.	£13 billion
CI for 61–64-year-old women	Calculations based on these groups getting working-age rather than higher pensioner CI rate. However, in savings calculation, the total cost of current pensions is taken into account.	£72 a week addition for each of 1.4 million women in this group as a result of basing on today’s pension population.	£5 billion

Working Tax Credit savings	Calculations include all WTC even though some goes to childcare, for which no alternative provision included in CI.	£2 billion of WTC attributable to childcare costs. *	£2 billion
Higher rate tax relief on pensions	Assumption this would be abolished even though it is not a policy linked to CI (see text above)	£10 billion a year counted as savings.	£10 billion
Student grants and loans	Assumption these would not be needed is invalid – see text above.	£3 billion a year counted as savings.	£3 billion
Pension Credit	Calculation states that “under the current pension system, pensioners receive their accrued state pension entitlement and are then ‘topped up’ to the Pensions Credit rate”. This is incorrect – it is true only for pensioners with low incomes.	Assumption that pension credit costs £8 billion when it actually costs £7 billion – see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/264555/dwp-annual-report-accounts-2012-2013.pdf	£1 billion
Total additional money required			£34 billion

*Autumn Statement 2014 paragraph 1.229 states that the cost of increasing childcare support in Universal Credit from 70 to 85 per cent is £350 million. This implies current spending on this element in the tax credit system (under similar provisions to Universal Credit) is £350 million times $70/15 = £1.6$ billion. See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44695_Accessible.pdf

To raise this additional £34 billion, some taxes would need to be increased or other forms of spending cut. The most straightforward way of raising an extra £34 billion would be to raise the basic rate of income tax by about 8p. (At present, a penny on income tax raises about £4 billion; it would raise slightly more than this if tax allowance were abolished, because more income would be taxable).

Appendix 2: Note on revised Citizen's Income Trust (2015 version)

Shortly before publication of this paper, the Citizen's Income Trust published a further set of calculations (Torry, 2015). These acknowledged many of the points made in this paper, notably that a citizen's income would require very substantial costs which, if funded through income tax, would require substantially higher tax rates. Its estimate of these costs was enhanced by an additional proposal – the retention of existing means-tested benefits as a safety net – to avoid households on the lowest incomes facing losses. These calculations:

- Confirm that the citizen's income would require the UK to accept much higher marginal tax rates, and significant redistribution that would make some middle to higher income people significantly worse off.
- Acknowledge that the original proposals would create losers, some of whom would not be well off. They address this by accepting that the complexity of a means-tested safety net would need to be retained but argue that far fewer households would have to draw on it. However, it should be noted that an important reason for this requirement, as mentioned in Appendix 1 above, is that the proposed child's citizen's income would be much lower than the present Child Tax Credit. As a result, 80 per cent of families presently claiming this means-tested benefit would still be entitled, and this would include all those with no and low earnings who need it the most.
- Suggest that in order to avoid too high a hike in tax rates, the citizen's income level might be lowered, which would increase the extent to which households remain dependent on means-testing.

This new version of citizen's income confirms the huge tension that there would be between finding a politically acceptable version of the scheme and retaining its advantages in terms of both simplification and adequacy. Furthermore, the suggestion of a lower citizen's income to make it more affordable underlines a risk referred to in the conclusion of this paper: that the existence of a citizen's income, even one too low to meet people's needs, could create pressure over time to reduce means-testing in a way that eventually leaves the poorest households worse off.

Acknowledgements

I would like to thank Kitty Stewart of the London School of Economics, Stuart Adam of the Institute for Fiscal Studies and Chris Goulden of the Joseph Rowntree Foundation for extremely helpful comments and suggestions on an earlier draft of this paper.

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This paper was commissioned as part of the JRF programme on the Minimum Income Standard, which aims to define an 'adequate' income, based on what members of the public think is enough money to live on (www.jrf.org.uk/topic/mis)

The Joseph Rowntree Foundation has funded this research paper as part of its programme of research and innovative development projects, which it hopes will be of value to policy-makers, practitioners and service users. The facts presented and views expressed in this paper are, however, those of the authors and not necessarily those of JRF.

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ISBN: 978 1 90958 683 3 (pdf)

Ref: 3106

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