

# Basic Income: Ethics, Statistics and Economics<sup>1</sup>

A B Atkinson, Nuffield College, Oxford

## 1. Ethics

The point of departure for my first book, *Poverty in Britain and the Reform of Social Security*, written in the late 1960s, was that there was general agreement that a society should provide a safety net to all its citizens. This was the aim of the post-war welfare state. The central argument of the book was Britain's social protection system fell short: the policies set in place to secure the safety net were not in fact adequate to do so. We were failing to guarantee a national minimum.

I did not question the ambition. I concentrated on the means of achieving the goal of providing an adequate safety net. The book was about the 2<sup>nd</sup> or 3<sup>rd</sup> parts of my title: Statistics and Economics. But today we need to begin with Ethics. There is no longer necessarily general agreement that social protection is an essential feature of a civilised society. In 1968, I simply quoted Dr Johnson, who said that 'a decent provision for the poor is a true test of civilisation'. Today we need to set against this the rather chilling statement of T Judt, the historian, who, before he died, wrote that 'European post 1945 history has crystallised into a system of security that provides a safety against all collisions, any unexpected turns. Europe needs to realise that this epoch has ended' (*Frankfurter Allgemeine*, 1/12/2006).<sup>2</sup>

It seems to me therefore that the first important feature of any Basic Income (BI) proposal is the re-affirmation of the principle that societies have a duty to provide social protection. A civilised society should ensure a decent minimum income. We can argue about what constitutes "decent", and about the conditions attached to the social minimum, but everyone should have a right to resources, over which they have control. It is in this way that Philippe Van Parijs sought to provide *Real Freedom for All* (1995). For me, it is important that the minimum be defined in terms of income, not consumption. A person might live in a household where others have income that is shared in common, but this would not meet the criterion. Rights are important within households as well as between households.

At the same time, the right to a BI is conditional. This is the case even with the "universal" BI, paid to all citizens or residents, since citizenship or

---

<sup>1</sup> Revised version of lecture given at the Workshop on "Basic Income and Income Redistribution", organised by the Centre for Research in Economic Analysis, at the University of Luxembourg, April 2011.

<sup>2</sup> I owe this reference to Stefan Leibfried (see the Introduction to the *Oxford Handbook of the Welfare State*).

residence are themselves conditions. These conditions are not innocuous. As has been asked in this context by Howard Glennerster, “who is a citizen?” He goes on to say “the rights could be narrow and targeted on long-standing indigenous people ... a long period of residence, could become the justification for narrowing rights to welfare - exclusive, not inclusive” (2010, page 701). I would make the BI conditional, not on citizenship or residence, but on participation in the society. “Participation” is defined broadly to include all forms of paid employment, full-time education, active engagement in seeking employment, caring for children, the disabled or the elderly, and those below a certain age (say 18) or above another age (say 70). The criticism has been made that this Participation Income (PI) would exclude very few people. But the intention is that no one should be excluded - everyone would have the opportunity to participate. In this sense, the proposal is intended to be socially inclusive.

Whether by my criterion of participation or by those of citizenship/residence, children are one group that must be entitled to BI and in this lecture I shall focus particularly on their needs. Children are in a sense the easiest group to talk about in this context, since universal child benefit is treated as a given in many countries. The argument has already been accepted - although in the case of my country we are sadly seeing a retreat from the principle of universality. Child Benefit was safe with Mrs Thatcher, but not with Mr Cameron.

The debate about a Child Basic Income (CBI) is likely to focus more on the level than on the principle. To be concrete, I have in mind a payment sufficient to meet the EU at-risk-of-poverty criterion, which for a child is 30 per cent of 60 percent of median income in each member state, or 18 per cent of median income, say 15 per cent of mean income. This proposal, if accepted, would mean that each Member State would guarantee that its provision for children would reach this level. A family whose current child-related transfers - whether in the form of child benefit, educational support payments, additional housing benefits - did not reach this level, would be entitled to a payment, funded by the Member State government, which brings the total to this level.

Now you might say that this is not a BI, but a guaranteed minimum income, more like a negative income tax. This is not the case. The proposed BI would be income-tested, certainly, but only on the total of social transfers with respect to children. If the Member State has a social assistance scheme with an explicit allowance for children, this would be taken into account, while the rest of the social assistance, and any other non-child-related income, would be ignored.

As will be clear, my section on ethics is not a high-level ethical argument. I am not seeking to justify the CBI or BI more generally on the basis of deduction from an ethical theory. In this respect, I am strongly influenced by Amartya Sen's *The Idea of Justice* (Sen, 2009), in which he rejects transcendental approaches to social justice, but argues instead that societies may be able to identify ways in which injustice can be removed, even without full agreement on the ultimate goals of society. Rather than describing an ideal, perfectly just world, we should devote our policy efforts to seeking to improve the extent of social justice. This approach may be seen as intermediate between, on one hand, utopianism and, on the other hand, the nihilism entailed in saying that we cannot agree on any way forward. It is what I have called 'progressive social justice' in which the aim is to seek to make progress in the right direction (Atkinson, 2010).

The case for a CBI, or for BI more generally, is that it could be agreed on as progress in the right direction by people holding a range of different ethical perspectives. BI can satisfy a plurality of concerns. A case for BI and CBI can be made on grounds that it alleviates poverty, that it reduces inequality of outcome or that it helps secure equality of opportunity. The case can be made in terms of promoting welfare, promoting capabilities or promoting freedom. The case does not depend on a single set of principles.

In *The Idea of Justice*, Sen discusses a number of issues relevant to a BI. In particular, he discusses the geographical reach of our principles of justice, We have a responsibility towards people in our own society, but also towards those in other societies. Indeed, he argues for a global approach to economic justice, criticising those who, like Thomas Nagel, who have argued that *without global governance* there can be no process of global justice. What can, however, be debated is the level of our commitment. In the case of the EU, the child BI as proposed above, at 15 percent of mean income, would vary in terms of purchasing power across member states. The level in Romania would be lower than in Spain, and lower in Spain than in Luxembourg.

One issue that Sen does not address is that of 'justice for whom?' Are the principles of justice intended to guide the actions of governments or do they apply to individuals? In reflecting on this, I turn to one of the major influences on Sen - Adam Smith's *Theory of Moral Sentiments*. Adam Smith may be best known for the opening sentence of *The Wealth of Nations*, but I prefer to quote the opening sentence of the *Theory of Moral Sentiments*: "how selfish however man may be supposed, there are evidently some principles in his nature which interest him in the fortunes of others". This quotation comes from the opening section entitled 'of the propriety of action'. In Part iii, Smith considers the foundation of our judgements regarding our own sentiments and

our own conduct. He argues that we should apply the principles of conduct that would be applied by an external impartial observer. Turning for a moment from philosophy to literature, we find in Jane Austen's *Emma* a related emphasis on the importance of 'good principles', with Mr Knightley as a - not totally impartial - observer of Emma's principles and how she applies them.

It seems to me that *The Idea of Justice* - like *Real Freedom for All* - is intended to help individuals to form their own principles of conduct. Society has a responsibility to encourage their citizens to acquire good principles. Laws are intended not just to constrain but to influence. The ethical argument for a BI is that we encourage both government and individuals to accept responsibility for protecting other individuals and - under my version of BI - the responsibility to participate. BI is not just a form of redistribution; it is a moral statement.

## 2. Statistics

I have argued the case for BI and particularly for a CBI, in terms of the benefits, but I have so far said nothing about the costs. When George McGovern ran for US President in 1972, he announced a campaign for a *demogrant* of \$1,000 dollars - which was in effect a BI. Back on the campaign trail he asked his advisors - one of whom was James Tobin - what flat tax rate would be needed to fund this promise? Tobin did the simple arithmetic along the lines of

Suppose cost of rest of government = 20 percent

Then BI of X percent of average income would mean a tax rate of (20+X) per cent

Therefore BI of 20 per cent would cost 40 percent tax rate; a BI of 30 per cent would mean a 50 per cent tax rate.

This cost appeared quite high. It may not have been the only reason why McGovern lost to Nixon, but it is certainly the case that he failed to convince US voters of the merits of this scheme. The issue of cost arises with other proposed schemes for BI. Moreover, the kind of calculations provided by Tobin certainly show certain weaknesses. He assumed that all income could be taxed, which is not true even of flat rate taxes. The results of his calculations were therefore over-optimistic. This point was made some time ago by Sir John Hicks, who noted of the Liberal Party plan that 'it does seem very extraordinary that there are so many pluses and so few minuses'. He, John Hicks, goes on to say that the BI is essentially a redistributive scheme and 'therefore, on balance, somebody must lose in order for somebody else to gain'.

What we need to do is to apply the tax to the actual taxable incomes and for this the costing must be based on household survey data. Here we have seen great progress, both in the availability of data - such as the EU Statistics on Income and Living Conditions - which also draws on micro-data from tax administrative records - and in the use of such data for tax benefit simulation. In the case of the EU, I should draw attention to the EUROMOD tax benefit simulation model, directed by Holly Sutherland. This has since been used by Levy, Lietz and Sutherland (2007) to simulate the effects of introducing child BI in the EU. They examine different levels of CBI which involve supplementing existing child related expenditure by an amount which brings the level up to a specified percent of the country's median HH income. Interpreting the figures, we see that 18 percent CBI, at the proposed rates would mean increases in all of EU15 Member states. Increases in Luxembourg would be relatively modest, but higher in the Netherlands, Italy, Portugal, Spain and Greece. The cost for the EU as a whole would be equal to a rise in the overall tax rate of 2 percentage points. The child poverty rate would be reduced from 19.2 to 14.4 percent. This would certainly not eliminate child poverty, since the rest of household income may be below the poverty line, but it would be a significant improvement, reducing by a quarter the number of children living in poverty.

These calculations are very important. It is essential that the EU has access to this kind of analytical tool. I need hardly point out that the construction of tax benefit simulation models requires substantial investment. But it is arithmetic and does not include behavioural responses, which brings me to Economics.

### 3.Economics

What would be the effect of the BI and, specifically, the child BI on economic decisions?

To begin with, it is worth remembering that one of the reasons why early supporters of BI put forward the idea was their concern with the disincentive effects of social insurance, particularly those on the participation decision. Lady Rhys Williams, one of the proponents in the 1940s, argued that NI would 'undermine the will to work of the low paid workers to a probably serious and possibly dangerous degree.' She is clearly right in saying that contingent benefits tilt the balance away from work, whereas, with a BI, the playing field is level - a person receives the same amount whether or not s/he is in employment. Indeed, to be eligible for PI, a person has to be actively seeking work. At the same time, my own view is that the extent of the disincentive effect has been overstated, not least because of the conditions of

unemployment benefit. One needs to remember that in the EU today a third of those aged 25 to 49 who have been unemployed for between 4 and 6 months do not receive UM. For Luxembourg, the percentage is around 50.

I am not therefore inclined to give great weight to the claim that the BI would have significant incentive effects. Potentially much more serious is the question of the level of the tax rate required to finance BI. Much of the expense comes from the payment of BI to everyone and most economists would criticise the lack of targeting. In the case of child BI, on which I will now concentrate, the argument for targeting has been made in the recent Mirrlees Review in the UK, carried out by the IFS. In one of the supporting studies, Brewer, Saez and Shephard argue for a fully means-tested child benefit, entailing the withdrawal of child benefit from the better off. This latter proposal has been adopted by the current Conservative - Liberal Democrat government. In effect the UK is retreating from universal child BI - the reverse direction from that which I am advocating.

The idea of taking child benefit away from the rich families - people like the Prime Minister - and using the saving to pay higher benefits to those with low incomes may sound like a good policy. Or, to put it differently, my target of raising child benefit to 15 percent of average income could be achieved at a lower cost if the benefit were confined to those on the lowest incomes. Such a means-tested family supplement would, of course, mean higher marginal tax rates for people on lower incomes. There would not be lower marginal tax rates for everyone. The question has then to be faced - for whom are high marginal tax rates least damaging? The answer, according to Brewer, Saez and Shephard, is that an optimal tax analysis, with a model of disincentives operating on the extensive work margin, does indeed show that a utilitarian social welfare function is maximised by a policy that limits child benefit to those with lower/middle income earning power.

Why then am I proposing to reject this - apparently impeccable - analysis? In my view, the analysis, though quite correct as far as it goes, is incomplete. It leaves out a number of important considerations. The first of these is that child benefit involves redistribution not just between rich and poor, but between families with and without children. This aspect is missing from the Brewer, Saez and Shephard analysis, since they do not consider how the needs of children should enter the utilitarian objective function. We must ask how far the social valuation of an additional €1 of income depends on the number of children in a family. Some writers take the view that it should not depend on the number of children. They argue that having children represents a lifestyle choice and that we should not give more weight to this form of 'consumption' than to any other. I find this view totally unacceptable, since it

completely ignores the claims of the children themselves. Nor is it the view embodied in standard analyses of the distribution of income. The standard analysis recognises that - all things being equal - a family with a child has greater needs than one without. On the OECD scale, a single adult is treated as having needs at level 1, while a single adult and one child living together will be treated as having needs of 1.3. This means that an income  $Y$  guarantees this household an effective consumption of  $Y/1.3$ . (This is the figure of 30 percent  $I$  used earlier when discussing the appropriate level of child BI.) This means that 1 dollar given to the family generates less additional welfare because it has to be shared. On the one hand, the benefit goes to 2 people - here I am adopting the standard practice of weighting according to the number of people - not the number of equivalent people. So that the marginal value of income is  $2 \times 1/1.3$  or approximately 1.5 times that for a single person.

With such a weighting, we may want to finance the improved benefits for those on low incomes, not by cutting the benefits for rich families with children, but by taxing more those without children. Put differently, the policy design problem should not be seen simply in terms of redistribution among families with children, but also in terms of redistribution between those with and those without children. In this broader framework, it does not come as a surprise - at least to non-economists - that the case for or against CBI depends on how we weight the welfare of children.

This brings me to a more general concern. The Brewer, Saez and Shephard analysis is narrowly utilitarian. Their paper could have been written by Pigou or other classical welfare economists. Even they, however, would have taken a wider perspective than simply maximising the sum of utilities. They would have recognised, for instance, that there are issues of horizontal, as well as vertical equity. The removal of CBI from the wealthiest means that they are placed in the same position regardless of the number of children in their family. But many would regard it as unfair that a person with an income of €100,000 a year and 3 children should pay the same amount of tax net of benefits, as his counterpart with no children.

As I said earlier, I am not seeking to base the case for child BI on simply one approach to social justice. I am not saying that advocacy of a BI is indicated by a contractarian theory of justice, whether constructed on Benthamite or Rawlsian principles. Rather, I am arguing that there are several sets of considerations that point in the direction of such a scheme. There are several different standpoints - which may disagree about the ultimate goal, but agree that a CBI represents progress in a desirable direction.

Not all these standpoints are encompassed within the welfare economic framework adopted in standard analyses of taxation. I have just referred to the

notion of Horizontal Equity, which sits uneasily alongside Vertical Equity. Indeed, the same applies to the concept of 'fairness', broadly interpreted. As we have seen, the alternative -income-tested - approach to family support entails high marginal tax rates for those on lower and middle incomes. For example, if we phase out CBI of 15 percent of average income over the range from  $\frac{1}{2}$  to  $\frac{3}{2}$  of average income, then for a family with 2 children this means an additional marginal tax rate of 30 percent over this range, meaning that the overall marginal tax rate may reach 60 or 70 per cent. Such a marginal tax rate has implications for incentives, but also raises a question of 'fairness'. On grounds of fairness, it could well be seen as 'unfair' that a person/family should retain so little of their additional earnings. Fairness requires a perceivable link between effort and reward.

A second set of arguments concerns the means by which family support is delivered. The standard tax analysis is concerned only with the amount of income received; it is not concerned with the *form* in which it is received. Yet people value different forms of income differently. Earnings or interest on shares are perceived as merited, since they are based on a reciprocal relationship. Pensions are seen as merited, since they have been earned by past contributions. On the other hand, certain other transfers are seen as 'charity' and the receipt entails a loss of dignity. We have seen how this applies to means-tested 'assistance'. The UK has a long history of means-tested family payments, going back to the Family Income Supplement introduced in 1971. Regular statistical studies have shown that a significant minority of those entitled to these benefits do not claim them. Attention tends to be focused on false positives - on those not entitled but who nonetheless receive benefits - but false negatives are, I am convinced, more worrying, since they mean that many people on very low incomes are not receiving the benefit to which they are entitled. Economists tend to argue that this is due to a failure of information, but studies have found that many people are reluctant to claim even when informed of their entitlement. The UK family credit has been in operation for many years and yet approximately 20 percent of those entitled are still not claiming.

In my view, the above indicates the need ensure that benefits can be claimed without loss of dignity. I believe that BI plus child BI would allow this to happen. In the UK there has never been a problem of failure to take up Child Benefit - and the same was true of its forerunner, Family Allowance. More generally, the PI itself, with its intrinsic message of reciprocity, would be seen as an entitlement, not as charity.

A further highly significant element which is missing from the standard WE framework is that of gender. Among the European poor, women outnumber

men to a significant extent - 43 million compared with 37 million. This is not due solely to difference in life expectancy. Women are disadvantaged in the labour market. They are at greater risk of being left to care for children on their own: there are far more single mothers than single fathers. A significant advantage of child benefit is that it is payable (in the UK) in the first instance to mothers, not fathers. Other instances of positive gender discrimination, such as an earlier retirement age, are being removed. CBI remains a legitimate way of redressing the gender balance - which could not be achieved by an income-tested alternative based on the total family income.

My final concern about the narrowness of the standard welfare economic approach is that it ignores the ethical content of individual behaviour. People are assumed to want to act in totally self-interested ways, with their behaviour as workers, consumers and savers uninfluenced by moral principles. They are believed to be unshakable in their goals of maximising their personal happiness, as represented by maximising utility. Yet, I do not believe this is the case. People are, I believe, motivated by moral - even altruistic - principles at least as much as by self interest. In accordance with the Smithian view, individuals are concerned that their behaviour should be 'praiseworthy', that they should be seen, and should be justified in seeing themselves, as acting in accordance with 'good principles'. These principles are subject to many influences, but one of them is the nature of the perceived relationship between the individual and the state. Here politicians can exercise political leadership, making the case for paying taxes, for investing in children as part of the national future and for balancing rights and responsibilities. The principles of behaviour and the consequent incentive or disincentive effects are in part endogenous - as is becoming increasingly evident from the literature on behavioural economics.

### **Conclusions - what prospects for progress?**

My argument may well appear absurdly optimistic. Governments are currently primarily interested in cutting spending and this is no time to be proposing extensive new expenditure. Bond holders would take a dim view of any country that tried to invest extra resources in its children and we must be subservient to their demands. Or must we?

I contend that there are strong grounds for urging the CBI scheme outlined above at this time. The political economy is not all negative. European leaders do on occasion lift their eyes above immediate short-run issues. One such occasion was the agreement last year on the Europe 2020 Agenda, which included the explicit target for reducing poverty and social exclusion. In round

numbers there are 80 million people in EU countries living at risk of poverty and social exclusion. The - admittedly modest - aim is to reduce this number by 20 million.

A person from Mars observing the agreement of the Heads of State and Government on this target could be forgiven for supposing that the EU had already worked out a plan for how Member States, under subsidiarity, might achieve this goal. As far as I know, no such fall-back plan exists - and the present national proposals fall significantly short of the desired reduction in poverty. The BI, with Child BI, offers one way forward. The establishment of such mandatory transfers to be implemented by Member States according to national circumstances could achieve the agreed result. At the very least, it would be good for the EU to have such proposals on their agenda, while discussing with national governments the contributions they could make to the 20 million reduction target.

It is indeed in an EU context - taking a longer-term perspective - that the BI has its political appeal. Whenever one contemplates the harmonisation of European minimum income provisions in all their inherent complexity, it becomes clear that the relative simplicity of BI or PI has much to recommend it. The fact that it would represent a departure from the existing national systems, in all their different forms, is a positive advantage. There would be no question of the agenda being dominated by the “model” of any one Member State. Moreover, it would be consistent with subsidiarity, and could be introduced as a complement to national policies.

Perhaps I am being over-optimistic, but that is the side on which I prefer to err.

#### References:

Atkinson, A B, 2010, “Progressive social justice and responding to the crisis”, *Journal of Poverty and Social Justice*, vol 18: 221-228.

Brewer, M, Saez, E and Shephard, A, 2010, “Means-testing and tax rates on earnings” in J Mirrlees, editor, *Dimensions of tax design*, Oxford University Press, Oxford.

Castles, F, Leibfried, S, Lewis, J, Obinger, H and Pierson, C, 2010, *The Oxford Handbook of the welfare state*, Oxford University Press, Oxford.

Levy, H, Lietz, C and Sutherland, H, 2007, “A guaranteed income for Europe’s children?” in S P Jenkins and J Micklewright, editors, *Inequality and Poverty Re-examined*, Oxford University Press, Oxford.

Glennerster, H, “The sustainability of Western welfare states” in Castles et al.

Sen, A, 2009, *The idea of justice*, Harvard University Press, Cambridge, Mass.

Van Parijs, P, 1995, *Real freedom for all*, Clarendon Press, Oxford.