

## **Citizen's Income and the Crash: Credit, Debt and Citizen's Income**

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Back in early October last year, with panic measures to bail out the banking system being announced daily, one commentator said, 'If you're a government minister for welfare reform, you may as well go and dig your allotment for a couple of years'.

The idea behind this line was obviously that reforms of the tax-benefit system were on hold, because far more pressing matters concerning the rescue of the whole structure of credit, involving the public finances and the vast volume of household debt, would dominate debates about economic policy (and everything else) for the foreseeable future.

But – oddly – at almost exactly the same time, both the US and Australian governments distributed fairly substantial sums to all their citizens, as part of their responses to the crisis. This was something unimaginable only a few months earlier, in a period when conditionality was de rigueur in benefits administration, and parties vied with each other for programmes with the strictest regimes for lone parents and disabled claimants. Even Gordon Brown's beleaguered regime shelled out a bit extra for the pensioners' Christmas bonus and winter heating allowance. In mid-February the Japanese government followed suit.

In this paper, I want to argue that, far from closing out the debate about taxation and redistribution, the crash opens it up to a far more radical exploration of the options. This is because it raises once more questions which were fiercely disputed in the

1920s and '30s, about the nature of banking and credit, and it was from these contests that the UK proposal for a citizen's income sprang. This proposal has, in recent years, won over many political philosophers and some political activists, and it has even been aired as a technical fix to tax-benefit dilemmas, for instance in Ireland. But the financial crisis seems to me a far more propitious opportunity for examining the broader implications of the proposal, and how it is related to the economy and the social order.

Obviously I am not claiming that the emergency payout by the US and Australian governments, as part of the doomed first wave of attempts to combat what was then still called the 'credit crunch' (making it sound more like a breakfast cereal than a global catastrophe), was evidence of a conversion to the principle of universal, unconditional, adequate incomes for all their citizens. Far more significant, I think, has been the diversity of analyses and proposals in newspaper articles and in broadcasts, about possible responses to the crash.

Just to give two brief examples, Simon Jenkins, both in his Guardian column and on TV, has argued that it is folly to pump more and more taxpayers' money into the failed banks, and that it would be 'Better to hand us all a grand than hurl billions at [them]'. The article bemoaned the government's preference for trying to increase spending through the banks, rather than simply giving people vouchers to spend. He said the government preferred bail-outs because it seemed more respectable to 'launder' payments rather than just 'trust people to spend their own money rescuing the economy' (Jenkins, 10 December 2008).

Similarly, George Monbiot, in his column, pointed to the creation of local currencies as a way of reviving specific industries and communities facing depression and deflation, in an article entitled 'If the state can't save us, we need a licence to print our own money'. Citing the unorthodox German economist, Silvio Gesell, he gave several examples from the 1920s and '30s of districts which distributed tokens to residents to boost spending during a crisis, and prospered as a result. As he argued, 'It bypasses greedy banks, it recharges local economies' (Monbiot, 20 January 2009). He could have mentioned the town of Lewes, in the Sussex Downs, which does all this already.

Although historians of Citizen's Income trace the origins of the proposal back to Tom Paine in America, and Fourier in France, the first recognisable schemes involving universal tax-benefit systems had their UK origins in the last crisis of banking and credit. I shall briefly outline this history, before going onto argue that this one is raising exactly the questions which need to be addressed for Citizen's Income to be a serious part of the policy debate.

### **Banks, Credit and CI – The Origins**

During the First World War, many people were struck by the fact that governments were able to spend huge sums on armaments and munitions, expenditure levels which would have been unthinkable in peace time. They were also aware of the technological advances in productive capacity which had been induced by wartime output, and the rise in working class living standards which this in turn had enabled (Douthwaite, 1992). All this represented a challenge for post-war reconstruction –

how to sustain productivity, incomes and the social peace which had prevailed in the UK during the war (following a period of unrest and class conflict immediately before it).

The first proposal to create a form of credit through a universal 20% tax on incomes of all kinds, combined with a 'state bonus' for each citizen, was made by Dennis Milner, a Quaker, in 1918. He, his wife Mabel, and his friend Bertram Pickard, published books and pamphlets in the following two years, justifying these payments for the sake of prosperity and social harmony (Milner, 1918, 1919; Pickard, 1919); the scheme would increase national income by 25 per cent, and give every citizen a share of that gain, greatly enhancing cooperation between the classes.

The second proposal was primarily concerned with a national form of government credit, aimed at combating the distributive inadequacy which he identified as inherent in business accounting, by Major CH Douglas, an engineer who had been involved in wartime aircraft production. He argued that Social Credit (as the movement he founded came to be called) was necessary, both for the reasons given by Milner, and because the costs of industrial production in one cycle always distributed too little purchasing power to consume the products of the previous one (Douglas, 1919, 1920).

As he developed his theory in the 1920s and '30s, Douglas included a scheme for a National Dividend, which was in essence a Citizen's Income for all. He also focused more on the role of banks in the creation of credit, a part of the analysis which became more prominent after the Wall Street crash of 1929.

Both of these proposals were debated (and rejected, mainly at the behest of Hugh Gaitskell) in 1921; but the Douglas scheme gathered a strong political following, and even spawned a paramilitary wing, the Greenshirts, in the 1930s, led by John Hargrave, a charismatic former deputy of Baden Powell, who had previously led a youth movement in which he had been known as White Fox (Drakeford, 1988). There were important Social Credit Parties in Australia, New Zealand and Canada, and the party ruled the province of Alberta, in the latter, for many years.

Perhaps more significantly, although orthodox economists were very critical of Douglas's theories, and Keynes acknowledged him only as a 'private, but surely not a major, in the great army of underconsumptionist theorists' (Keynes, 1936, p. 00), other important figures were strongly influenced by these ideas. G.D.H Cole, the leading socialist intellectual, accepted many of the features of both the state bonus and the social credit analyses; and James Meade, much later a winner of a Nobel Prize for Economics, was a lifelong advocate of citizen's income, having been introduced to Douglas's ideas by his aunt. (In a bizarre footnote to the history of economic thought, Meade and Pickard lived next door to each other and were good friends when both were working for the League of Nations in Geneva in the 1920s, but neither knew that the other had been involved with the embryonic CI proposal (Van Trier, 1992).

Right from the start of his writings, Douglas focused on the nature of money and credit, and the role of banks in a capitalist economy. As Marx recognised, money is a necessary condition for the productive process, and all the social relations it creates, under capitalism, and this is created by the banking system, in the form of credit. Douglas pointed out that banking is 'an institution whose business is to issue money'

(Douglas, 1922, p. 46), for motives of profit. Credit consists of bankers' estimates of the ability of people to repay loans plus interest, and is essentially a mortgage on future production.

As Frances Hutchinson and Brian Burkitt of Bradford University have pointed out, in all this Douglas was echoing the writings of the Guild Socialists, such as S.G. Hobson, from before the First World War (Hutchinson and Burkitt, 1997, p.42). This helps explain the leading role taken by A. R. Orage, the editor of the Guild Socialist New Age, in publicising Douglas's work; he had written in 1914 about the 'great financial network' which 'covers the world', of its power over states and producers, and how it bought and sold money for profit (Orage, 1914, pp174-8).

Douglas argued that the requirement to borrow money in order to finance production drove the whole industrial system constantly to expand output, in order to repay past loans. As technology played an ever larger role in productive processes, and research, design, and hence lead-in times grew, so the power and control of the banking system over the economy increased. The remedy lay in returning the control of credit to the community, through the radical decentralisation of 'dividends' to all citizens, in relation to national wealth.

The Douglas/New Age texts argued that the power of banks lay in their secrecy, and the opaque way in which the system operated. Savers were encouraged to believe that it was their deposits which provided the basis for producers' investments, when in fact these formed only a small part of such funds, the great bulk of which were created by the banking system. Furthermore, the national debt was made up of credits from the

banks, making governments in hock to the system also. Orthodox equilibrium theory disguised the role of banks in the dynamic of capitalist production, and so failed to anticipate situations in which 'financial credit' could become disconnected from 'real credit' (the true value of the means of production, both machinery and human expertise), leading first to booms in which excessive credit drove the production of many unneeded commodities, and then bust, when no credit was available for producing, the necessities which were well within industry's capacities to make.

All this has, of course, become topical again, as we ponder how banks were given the power to create the house price bubble, and to invent derivatives and other scams which amounted to vast pyramid frauds. We also wonder about the nature of a national debt which is doubling by the year, not only here but in the USA also. If our pension funds are the biggest single owners of government bonds, why is this counted as a debt, and not a credit? If the banks sold their financial products to our pension funds, they would count the proceeds as a gain, and it would provide them with the basis for issuing credit. This was what Douglas proposed the government should do.

### **The Present Crash**

But it's also worth considering what has changed since these authors were writing, as well as what has stayed the same. I would argue that the case for Citizen's Incomes can still be linked with the analysis of banking and credit, but with some modifications of the Douglas/New Age thesis.

In the first place, those authors' models treated the national economy as a system, with industry as its motor. Douglas's example of the decentralisation of credit creation was for the UK mining industry, a 'producers' bank', under the control of mine-owners and trade unions (Douglas, 1918; 1920, pp147-211). In each mining area, the producers' bank would pay a dividend on fixed capital, and create 'real credit' in relation to future planned production. This was a microcosm of how Douglas saw the whole UK economy; producers' banks would be monitored by a National Clearing House keeping a National Credit Account.

Obviously, globalisation has made this model seem quaint and obsolete. Because banking has become completely international, and most industrial production takes place in China, India, Brazil and Russia, credit-creation for production takes place within an integrated world economy. The largest and most powerful banks have had their headquarters in the USA, UK and Europe, but money markets operate internationally.

On the other hand, there has been an enormous expansion in credit given to individuals and households, in the form of mortgages, loans and credit card debt. Whereas Douglas was concerned only with credit for production, the crash has been caused by excessive borrowing by banks in the USA and UK, which in turn have created a credit bubble by their lending to US and UK citizens. The 10 per cent fall in Japanese manufactured exports in December 2008, was a direct result of the bursting of this bubble; so was the collapse in oil prices worldwide. In this sense, the role of banks and credit has become even more opaque than it was in Douglas's time, making it possible for Gordon Brown to claim that we are the victims of a global crisis, when

in fact the City of London (and Wall Street) are the causes of everyone else's recession.

But in another sense, the central role of banks had become much more explicit, even before the crash. As the financial sectors of the USA and the UK (especially ours) have become so large and dominant in relation to the rest of these economies, and as the role of the IMF, World Bank and World Trade Organisation have come to usurp many of the powers of national governments, the theory of macro-economic management, of monetary economics and of governance itself have given a leading role to banks.

In the theory of contract, information and incentives which has held sway in these fields for the past 10 or more years, finance capital drives through global economic integration, bringing welfare gains to every corner of the world. The theory is taken to explain every aspect of human interactions, and casts the banks as the rational managers, taking decisions which steer the whole system.

'[F]inancial institutions ... are critical in determining the behaviour of the economy, and... the central features of banks and bank behaviour can be understood in terms of (or derived from) an analysis of information imperfections' (Stiglitz and Greenwald, 2008, pp3-4).

The role of governments and central banks is to act as insurers for the whole economy on this account. They write contracts to try to regulate the behaviour, first of banks, and through them all other agents, in line with the theory of contract (Bolton and

Dewatripont, 2005). '[T]he regulator (the principal) tries to control or affect the behaviour of the bank (the agent) to make the bank act more in accord with social objectives' (Stiglitz and Greenwald, 2003, p.204), and this role then spreads out to the whole economy.

'Households are often not perfectly rational. Households and firms certainly don't have perfect information... Models based on more realistic assumptions... provide an additional rationale for government to intervene in the economy, and additional tools for government and central banks to stabilise the economy' (Stiglitz et al., 2006, p.47).

The crash has demonstrated exactly where this theory leads us. Banks inflated the US and UK housing markets, in order to be able to place one-way bets on the profitability of their loans. Just to be doubly sure, they created fancy types of insurance, and ways of sell on these risks to other banks, and make an extra profit. Having the power to create credit without any responsibility for the medium-term (let alone the long-term) consequences, they turned the financial sector into a casino, eventually even betting on the weather. And all along they knew that it would be taxpayers, through governments, which would have to pick up the tab when the bubble burst.

What have been truly shocking, I think, are the consequences for countries with sound banking systems, prudent public finances, efficient industries, and decent household savings ratios. Like savers in this country, they have been the victims of the crash, while having done nothing to cause it. No wonder there is anger with the USA and UK at international conferences, such as the G8 and G20.

The trouble was that, among other things, bankers and fund managers had begun to believe that money was a commodity, and that making money by these forms of trickery was ‘wealth-creation’. We have learnt the hard way that financial credit and real credit are, as Douglas argued, two entirely different things, and our prosperity was founded on a vast Ponzi scheme, borrowing Asian and Middle Eastern money to pay out in bonuses and dividends.

So, the question is how to improvise another system or systems for credit, to make good the gap between our potential income and what can be financed by the banks. But – more radically – since the financial sector made up about a quarter of our GDP, and provided a third of our corporation tax revenues, it is also how we are to rebuild a more balanced economy, in which people’s work is more directly related to their real well-being, rather than to illusory gains.

### **Citizens’ Income and Social Relations**

I want to turn now to the justification for a Citizen’s Income, and its basis in social relations, and how this links to the issues raised by the crash. Any argument for an unconditional income for all members of a society must reflect a view of what that society is supposed to be, and what membership of it implies. I want to argue that the contract theory which underpins our current model of citizenship is the self-same theory which brought about the crash, and that the basis for citizenship and a Citizen’s Income must be radically shifted in any viable post-crash society.

Milner, Douglas and the others who first presented the case for universal, unconditional distributions of income made it clear that these were shares in the value national physical and human resources – the wealth of the whole community. In the Douglas/New Age proposal, the rejection of finance capitalism, and its replacement by social credit (with elements of guild socialism) represented a new direction in human development. The original version, written in the 1920s, was very critical of the ‘superproduction’ driven by bank credit and debt, and argued for a level of output geared to ‘sufficiency’ – a kind of anticipation of the notion of sustainability.

Douglas specifically suggested that production should promote ‘well-being’, and thought that this could be achieved with less working time than was used in capitalist industry (Douglas, 1919, pp79, 104-5). His proposed ‘national dividends’ were meant to free people for more constructive activities, ending wage-slavery, through a share in commonly-owned assets.

Contrast this with much the best-known and most influential recent justification of basic incomes (and capitalism), that of Philippe Van Parijs (1995). His is derived from a contract between the individuals who make up our imaginary society, and is aimed at giving ‘real freedom for all’ – the opportunity for each to live as he or she might like to live (to do whatever he or she might want to do). Since these individuals are assumed to be diverse in their tastes and aptitudes, markets and flexible employment contracts generate the best outcomes towards that ‘real libertarian’ goal, and any ‘particular substantive conception of the good life’ (p.28) is rejected as ‘perfectionist’.

This is an individualistic justification for Citizen's Income, and Van Parijs adopts a methodologically individualist argument throughout the text, only as an afterthought conceding that the 'emotional basis' for redistributions among populations might have to be fostered by institutions (if necessary with compulsory powers) to achieve a 'sufficient level of social cohesion' (pp230-2). In other words, the freedoms to choose the life of a beach bum or a manic entrepreneur are the primary considerations, and the underpinning solidarities to enable this are secondary.

If this has something in common with the visions of Milner and the Douglas/New Age proposals, it also shares some features with the Third Way approach to social relations. In its New Contract for Welfare (DSS, 1998), the New Labour government spelt out the rights and responsibilities of citizens vis a vis the state. In return for the right to develop their own projects, citizens were obliged to support themselves from work and earnings, and not to burden taxpayers. The state, in turn, guaranteed to 'make work pay', and guarantee financial products, such as private pensions. Unlike Van Parijs, of course, New Labour's benefits system is highly conditional and stigmatising, with coercive powers in its welfare-to-work measures. But the goal is to maximise choice and freedom between options for all who manage to avoid being 'burdens' on the taxpaying majority.

My point is that the individualistic and contractarian basis for both Van Parijs and New Labour's versions of social justice means that they both rely on a largely commercial logic for the activities within which individuals interact, and contract as the defining relationships between them. Because markets create the fewest obligations, and allow the greatest scope for the pursuit of diverse projects of self-

development, they are always favoured in such a model. One might say that Van Parijs and New Labour's are the libertarian and authoritarian variants of the model of a contract-based society.

In the case of New Labour, of course, bank credit played a central role in enabling the self-development which is expected of citizens. Instead of looking to the state for benefits, services and a sense of identity as 'independent' members of a body politic, individuals were encouraged to take out mortgages, loans and credit card debts, in order to realise their potential in 'projects of self' (Jordan, 2004, 2008). A whole psychology of individualism and self-identity has been promoted by this approach (Giddens, 1991; Rose, 1996), in which solidarity, loyalty and community are relegated to a subordinate role, in favour of competition, consumption and property-ownership.

It is now obvious that this kind of society is unable to distinguish between the search for identity and self-realisation, and the most disastrous forms of reckless greed.

Whereas welfare states did provide, in public services and the public sphere, opportunities for citizens to interact in a spirit of democratic equality, that whole domain has now been made into an arena for mobility between options, as individuals and households vie for positional advantage over schools, hospitals and care facilities (Jordan, 1996, 2000, 2006).

The gains from the 'flexibility' and 'innovation' favoured in this model have now been revealed as illusory. Welfare, measured in terms of utility, has risen, only to shrink again – but in the meantime well-being (self-assessed overall satisfaction with

life) has flat-lined (Layard, 2005; Jordan, 2008). Above all, the well-being of children has been neglected; the UK and USA were bottom and next-to-bottom in a league table of 21 rich countries (Innocenti, 2007), while the UK came 21<sup>st</sup> out of the 25 EU countries in 2004, above only Slovakia, Lithuania and Latvia (Bradshaw et al., 2006). In particular, the UK's children and young people fared worst in relationships with parents and with peers.

### **Well-being, Sustainability and Social Reproduction**

For all these reasons, I would argue that any attempt to reconstruct the system of credit in the wake of the crash, and any links between this and the Citizen's Income proposal, should be based on a model of social relations which is substantive, and concerned with sustainability – both in terms of the physical environment, and in terms of a viable quality of life, which can be reproduced over a number of generations.

The crash has revealed just how deep-seated are the problems of the present model. Every link in the chain – from the regulatory framework of the banking system, through the over-reliance on the financial sector, through the fraudulent manoeuvrings of the city, to the Private Finance Initiatives and the public-private partnerships for schools, hospitals and social housing, the vast indebtedness of the household sector, and the crass individualism of our lifestyles – it can all be traced to the principles of methodological individualism, contract, information and incentives, which have been the ruling ideas of our time. This year, there have been scandals and evidence of failures in almost every one of the public services, from child protection and the

college building programme to hospitals and care homes; most recently the expenses claims revelations have tainted parliament itself. At every turn, from the restructuring of our public services to the way we bring up our children, the model has failed. It is time for a complete overhaul of our collective life.

The government has put contract and the banks at the centre of its disastrous strategy for stability and growth. It is now busily trying to disguise this; for years, everything that it disliked has been described as a 'culture' – dependency culture, passive, benefits culture, public sector culture, gang culture, gun culture – in contrast with its buzzwords of independence, choice and contract. Now Gordon Brown complains daily of the 'bonus culture'. But the bonus culture is the contract culture, the bank culture, the tax evasion culture, the business culture, indeed, the New Labour government culture.

At the same time as we address the issues of credit and debt, we should also look for a new rationale for our society, in which we meet the challenges of climate change and human development, rather than trying to patch up a busted model. A possible new direction has been called the 'non-productivist' approach to quality of life and development (Offe, 1992; Fitzpatrick, 2003; Dean, 2006). This is in contrast with the 'productivist' model, epitomised by Japan, China and the other East and South-East Asian countries, where export-led growth has been the rationale for their economic development, and the basis for their social policies (Gough, 2004).

There are two strands of non-productivism as it has been conceived so far – the feminist idea of an 'ethic of care' as the principle behind services (Tronto, 1994;

Sevenhuijsen, 2000; Williams, 2001), and the environmentalist idea of sustainability in our approach to natural resources and biodiversity (Douthwaite, 1992; Fitzpatrick, 2003). How might the CI enable and enhance any such political movement, as a direction for public policy after the crash?

In my view, there is nothing in the CI proposal which is intrinsically favourable to the ethic of care or to environmentalism – it is neutral between productivism and non-productivism, because it is consistent with either expansion of economic output (as Milner, Douglas and the other pioneers claimed), or with ‘sufficiency’ and sustainability, as the Douglas/New Age texts also argued. What CI could do is allow both a political mobilisation around these new directions, and individual freedom from any tendency to impose such agendas on those who dissent from them, or who have (temporarily, or in the long term) other priorities.

Because the CI would give people a subsistence income for activities and interactions outside the labour market, whether these consisted in care work, communal projects, artistic and cultural endeavours or political activism, it would allow the development of movements to counter productivism in all its forms. It would create the opportunity for a culture shift away from consumerist materialism, and towards a more sustainable set of social relations, capable of longer-term reproduction of our cultural heritage.

But at present there is little agreement about what forms such a movement might take, or on the content of the new policies it would allow. For instance, feminists are very divided over the question of whether women’s path to equality and full citizenship

lies through labour markets and property rights, or through a stronger assertion of the values and priorities of the ethic of care (Orloff, 1993). Many women would be suspicious of a mobilisation around sustainability and social reproduction, fearing that it would put them back into unpaid domestic and community roles, and subordinate their development to men's ambitions.

The CI would allow a balance between the demands of material production, scientific progress and individual autonomy, and the opportunities for sustainable alternatives both at the level of public policy, and at that of individual self-development. It would therefore balance liberal with communitarian objectives, as well as scientific with human development.

### **Conclusions**

We are beginning to see that the crash is not just an indication that banks have been greedy and dishonest during the past 10 years. Putting eye-watering sums into rescuing them is not supplying the credit to sustain even sound businesses, and it is hurting parts of the world where banking is in its infancy. This has led to a new debate about the nature of credit and how to supply it, and to lots of innovations, of many kinds.

In this country, large firms are supplying credit to their suppliers and customers, in a kind of improvised version of Douglas's 'producers' banks'. Local authorities are going back to supplying mortgages. The post office is hurriedly being transformed into a bank. The Highways Agency is lending money to contractors to finish their

current building projects. And, no doubt, there are many other more local and informal experiments happening, from credit unions to cooperatives, in order to spread and share risks, in all the ways that commercial banks have been failing to do.

So, nationalising the banks, as the governments here and the USA have been so reluctant to do, is only a small part of the big picture. We ought to be thinking about the long-term future of credit supply, and what it will mean to have a vast national debt as a result of the recent bail-outs, but the prospect of paying interest to commercial banks way into the future of the privilege of having rescued them. Better, surely, to use national savings and other schemes to give a decent return to citizen savers, in exchange for lending the government all that money.

But I think the main opportunity given us by the crash is the chance to reject the whole notion that citizenship consists of self-development towards ‘independence’ through mortgages and bank credit – the idea that the highest civic virtue lies in owing the bank everything, and our fellow-citizens nothing. CI, as a replacement for the existing tax-benefit mess of complexity and coercion would recognise that we share in a political community, with a cultural heritage, and that we have a democratic responsibility to set a new course for a sustainable future. It might allow a citizenship of common interest and participation for the common good (Sandel, 2009).

It is universally recognised that we need a ‘change of cultures’ in our collective institutions. But cultures are no more than ways of understanding, interpreting and accounting for our actions through public standards of how we act with and towards others. These allow us to restrain random or selfish behaviour, and to give value to

people and their actions, through the processes in which we interact with them. It is this 'social value' to which economic as well as political choices should be made accountable. The CI is certainly not a sufficient condition for this radical shift in our collective life, but it may be a necessary one.

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