

Some theoretical musings on a basic income

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Basic income schemes are frequently derided as being unaffordable[1]. In order to assess the theoretical validity of this claim, it is necessary to elucidate how a basic income differs from most existing social protection schemes. Social protection (often colloquially labelled “benefits” in the UK, or “welfare” in the USA[2]) as currently implemented across the world has one defining feature: conditionality.

It is a widespread misconception that this conditionality is related to income (or wealth), in part because this superficially appears to be the case: support is typically withdrawn as recipients earn more. The way in which this is done differs from system to system – there’s a great deal of heterogeneity – but from a conceptual point of view all that matters is that the level of support is withdrawn as incomes (and sometimes wealth) increase.

However, from a theoretical point of view, this is functionally identical to a basic income and (admittedly complex) system of taxes. The reason for this is that money is fungible. To see this, let us conduct a thought experiment.

- Example 1: Imagine receiving £1000 in state support. If your income increases by £100 and your entitlement to state support reduces by £75 then your income has increased by £25. The state now pays you £925 (net) and you earn £100. Your net income is £1025 and the state’s net payment is £925.
- Example 2: Now imagine receiving £1000 as a basic income from the state. If your income increases by £100 and you are taxed at a marginal tax rate of 75% then your income still increases by £25. Your net income is £1025 and the state’s net payment is £925. The two systems are identical.

The first might appear to be more “affordable” since gross state spending is £925 rather than £1000, but this is illusory since net spending (and marginal taxes) are identical. Most of us receive (in one form or another)

a basic income, we just don't see it. To demonstrate this, we use the UK as an example – due solely to the authors' familiarity with the system – although the principles are universal.

In the UK, around 98% of pensioners receive a state pension – approximately 12.8m individuals. This is payable irrespective of (other) financial circumstances and can therefore clearly be thought of as a form of basic income (although it is not a true *universal* basic income, as there remains some conditionality in terms of the recipient's lifetime national insurance contributions). We already pay a (generous) basic income to 20% of the population.

Most of the rest of us *also* receive a form of basic income. However, this appears relatively “affordable” because the effective tax payments are invisible for most of us. Take, for example, a 30 year-old singleton living in Birmingham. Under Universal Credit, they would be entitled to £8402.68p.a. As their earnings increase, this is withdrawn at a rate of 63 pence for each pound of net income.

Such a system is functionally identical (in the same vein as example 2 above is identical to example 1) to one in which said individual is paid a basic income of £8402.68 and taxed at 63% for the first £9516 of their earnings. Between £9516 and £12500 they pay a marginal tax rate of 67.4% (12% in National Insurance and 63% on the net amount). On income between £12500 and £13506.51 they pay a staggering 75% (20% in income tax, 12% in National Insurance and 63% on the net amount), whilst above this they pay just 32% (32% in income tax and 12% National Insurance).

Here we come to the real reason why the existing system appears more affordable than a basic income: the cost is front-loaded onto the first few thousand pounds of income. A basic income would make this explicit. I have yet to see a proposal for a basic income of £9000 paid for with a tax of 75% on the first £15,000 of earned income, even though such a scheme would probably be affordable, and would resemble the existing system^[3].

There's a good reason for this: a marginal tax of 75% grossly distorts incentives^[4]. It renders the effective (after tax) minimum wage a mere £2.18 per hour. When one takes into account the cost and time of

commuting to work, effective take-home pay is likely to be well below £2 for each hour spent at work or commuting for many. Such amounts leave extremely weak incentives to work.

There are two ways around this. The first is not to front-load the tax payments, but instead increase taxes over a wide range of incomes. This has the added advantage of being much more progressive: rather than individuals on £10,000 paying a marginal tax rate of 75% and those on £60,000 paying 42%, you would instead have a situation where both paid a marginal rate of 50% and wealth was taxed more heavily than it is at present. Here we come to the nub of the situation: most object to a universal basic income *not* because of inherent concerns over affordability – since it already exists, for most – but rather out of a belief that it would be wrong (or infeasible) to ask the wealthy to share a greater proportion of the burden.

The second alternative is conditionality. With so few carrots, the present system needs to wield an almighty stick. Note that this conditionality is *not* related to income (or wealth). It is instead related to non-pecuniary (or at least not directly pecuniary) circumstances.

In most places a key part of this conditionality relates to behaviour – usually in terms of a requirement to seek to obtain work. Again, it is typical to have certain derogations based on circumstances (disability, age etc.) Often, the level of entitlement also depends on circumstances (most social protection systems become much more generous with age, for example).

At its most basic, conditionality is a way of excluding certain individuals who society deems unworthy of support: those who are able to but do not seek work. Put another way, as societies we have decided that those who choose not to work deserve poverty and destitution. Ultimately, in the absence of economic resources, you die. This is the stick that we wield in order to compel individuals to work for £2.18 per hour (less in practice).

This is true no matter how generous the system. As long as it is conditional, that is the value judgement we have made. Most systems have certain derogations – most commonly for those with very young children, the disabled and the elderly. As can be imagined, this almost

always creates yet more perverse incentives. Conditionality is therefore both the defining feature and key weakness of existing social protection systems.

Within the broad context of such conditionality, systems differ dramatically in terms of administration and the burden of evidence of compliance (or demonstration of extenuating circumstances). Some are onerous, whilst others are typically much more lenient. Typically, more onerous systems are associated with a high administrative burden (which is a pure economic cost) and a high risk of unfairly penalising society's vulnerable individuals, pushing them into destitution. More lenient systems are generally associated with higher levels of abuse.

To conclude, when authors claim that a universal basic income is unaffordable, they are actually exhibiting a preference for a tax system that imposes much higher marginal rates on the poor than the wealthy (whether they mean to or not) and using conditionality to compel the poor to work. We believe this is unjust. If you want a true safety net to support those facing hardship and poverty, only a universal basic income will do.

[1] <https://www.independent.co.uk/news/uk/politics/universal-basic-income-uk-tories-tories-unaffordable-damian-hinds-labour-green-snp-a7307476.html>

[2] Whilst they overlap considerably, the usual colloquial meaning typically covers only a subset of the total social protection budget. Specifically, terms such as “benefits” or “welfare” refer to cash or in-kind payments (e.g. food stamps) and do not include directly-provided social care (which tends to be predominantly focussed on the elderly, severely disabled and vulnerable children). Similarly, colloquial understanding of the term “benefits” tends to exclude pensions, in spite of the fact that in many places these make up the single largest part of all social protection/welfare expenditure.

[3] There are numerous additional complications relating to the existing system. In particular, whilst the UK tax system relates to *individual* incomes, the social protection system is based on *household* incomes. The amounts payable vary dependent on location, age and caring responsibilities (mostly but not exclusively related to children). In

theory, a basic income could vary dependent on location and age, although caring responsibilities are more difficult to model (the payment is attached to the child, but the support is withdrawn based on the income of the guardian). This is only a minor complication: a basic income could be paid to the legal guardian of each child (in the case of separated parents payments might be split on the basis of court-determined contact time).

[\[4\]](#) To put it into context, the UK only levies a marginal tax rate of 47% on the very highest earners (the top 1%), and even less on unearned income at this level.