COVID-19 AND A BASIC INCOME IN THE UK: MAKING IT WORK

ABSTRACT

This article makes the case for the adoption of a Basic Income in the UK, set at the level of £8,500 per adult and £4,250 per child. In contrast to advocates of more limited measures such as a 'partial basic income', we argue that a relatively generous Basic Income is affordable in the UK and can be paid for via a comprehensive reform of the tax and benefits system. We particularly identify the potential for wealth taxes as addressing any funding shortfall. Moreover, advocates of a limited Basic Income fail to address the fundamental problem of the current system, which is not its unequal nature with limited benefits per se, but its propensity for extreme precarity at short notice. As such, the current Covid-19 pandemic has brutally exposed the shortcomings of a flexible labour market combined with a limited welfare safety net in the UK. We argue this increases the urgency and appeal of a comprehensive Basic Income.

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Introduction

This article argues that the Covid-19 pandemic has dramatically furthered the case for a Basic Income in the UK and increased its urgency. It is argued that the abrogation of the state of its welfare responsibilities and the cultivation of the growth of precarious jobs under the auspices of the gig economy has combined to create a perfect storm in the context of a global viral pandemic, which has left many brutally exposed, with over 40,000 deaths in the UK (at the time of writing). In the sections that follow two key deficiencies of the dominant economic model in the UK, in the face of the current crisis, are explored before our Basic Income proposition is put forward.

In this context, arguments for a Basic Income have taken shape in recent years over about how worker incomes would be derived from a reduced input to automated production and services processes amidst the increasing capture of physical, intellectual and financial capital by a small elite. This has led to calls (e.g., Standing, 2017) for the implementation of a universal basic income (UBI), in order to provide economic security. Discussion of a Basic Income have accelerated with the growth of forms of work associated with the gig economy (De Ruyter and Brown, 2019). However, the concept of a Basic Income is hardly new – it has been discussed in academic circles for many years (De Wispelaere and Stirton, 2004). Indeed, some consider the genesis of the Basic Income concept to lie as far back as the publication of St. Thomas More's *Utopia* in 1516 (More, 2010).

To date, the construct of a Basic Income has generated considerable criticism (see Reed and Lansley, 2016; for a discussion). Some commentators suggest that a universal basic income is a blunt distributive mechanism, in that rich individuals would also receive it in addition to poor persons, and hence it makes no allowances for wealth. Similarly, a flat-rate Basic Income would make no allowances for additional circumstances, such as having dependents (e.g., children). Others simply suggest that the "public" would not welcome the notion of people being paid, irrespective of whether they chose to work (ibid). Rubery (2018) argues that a Basic Income could have deleterious effects on women's labour market participation, as it could further entrench their status as care providers if formerly unpaid domestic work were to come under its auspices. However, pilot studies, including the recent Finnish pilot study (Kangas et al., 2019) suggest that for poorer recipients a basic or minimum income has significant and positive effects on wellbeing across a range of indicators even in states with a strong social safety net.

Experience with the 2008-09 global financial crisis and its aftermath suggests caution in interpreting the current Covid-19 induced crisis as somehow necessitating that the current drastic measures will lead to a more fundamental overhaul. Even now, state intervention to support individuals and businesses is only being seen in many quarters as due to "exceptional circumstances". However, the impact of Covid-19 as a vast 'exogenous shock' to the world economy has exposed the fundamental fragility (or indeed, crisis) in the global capitalist model, with its predilection for smooth (global) supply chains and labour market corollary of workers on-demand in the 'gig economy'. As such, this has given renewed emphasis of the appeal of a Basic Income.

Moreover, Covid-19 entails the prospect of a more lasting contraction in the capitalist economic model in the absence of a vaccine, by simple dint of the fact that many 'proximate' services[1] could face a long-term attrition of employment as these sectors struggle to emerge from national

[1] i.e., those services that cannot easily be conducted with any modicum of physical distancing (e.g., passenger aviation and personal services such as hairdressing).

lockdowns. Hence, Covid-19 could engender a structural hit to the economy that entails hysteresis, with a long-lasting impact on the make-up of the labour force. The highly probable prospect of millions of displaced service-sector workers for the foreseeable future gives further credence to the need for a Basic Income to cushion the negative impacts of such disruption.

Amongst others, the Spanish Government is set to implement a UBI (Orihuela, 2020), whilst Nicola Sturgeon, the First Minister of Scotland, has also expressed interest in establishing a UBI[2], with serious work being undertaken to establish a series of pilot studies in four local authorities in Scotland (Danson, 2019). Hence, in the following sections, we look at two key phenomenon in the UK that have combined to escalate the severity of the current pandemic crisis; hollowing out of the provision of public services by the state; and growth of precarious work, before making the case (and costings) for a comprehensive Basic Income in the UK.

Hollowing out of the state

The past decade has seen a reduction of the role of the state in the UK in maintaining societal welfare. This has been typified by the "austerity" policies in introduced by a Conservative government since 2010, purportedly in response to the Global Financial Crisis of 2008-09. Whilst overall state expenditure rose dramatically as a share of GDP during the 2008-9 crisis, the decade since has seen this return to its pre-crisis levels (Eurostat, 2020a). What such figures hide, however, is the changing nature of such spending on different demographic groups in the UK. In particular, spending on the elderly has jumped, with "old age" social protection (largely made up of spending on the state pension) jumping from 7.1% of GDP in 2007 to 8.3% a decade later (Eurostat, 2020a).

Whilst most fiscal transfers (often loosely termed "benefits") for those of working age have been frozen (and so have, in real terms, fallen), the state pension has been increased more quickly than both inflation and average earnings (Thurley and Keen, 2017). Spending on disability support has had to increase, largely to support an increasingly elderly and frail population. As such, spending on family benefits (with child benefits being limited to 2 children per family), income support, tax credits and Universal Credit (combined)[3] has fallen, from 2.8% of GDP to 2.3% of GDP prior to the Covid-19 outbreak (Eurostat, 2020a). The burden of these cuts has fallen disproportionately upon women and BAME individuals[4], adding a strongly gendered dimension to the impact of the cuts (Pearson, 2019). WBG[5] research predicted that the poorest families would suffer a 17% drop in living standards by 2020, whilst single mothers (92% of sole parents) would incur an 18% drop in living standards over the same period (ibid.), and this was *before* the advent of Covid-19. In the current context, these groups are especially vulnerable.

Similar stories abound across other government departments: police spending has fallen from 1.3% to 1% of GDP, the law courts, prisons and fire service have all seen cuts whilst the budget allocated to community amenities has fallen from 1.2% to 0.8% of GDP. Communities characterised by multiple indices of deprivation have been hardest hit by these cuts (Financial Times, 2013; Gray and Barford, 2018; Hastings, Bailey, Bramley, & Gannon, 2017), with the culling of the previous Labour Government's Sure Start programme of children's centres for (poor) parents with young children

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[2] https://www.independent.co.uk/news/uk/home-news/universal-basic-income-ubi-scotland-uk-nicola-sturgeon-coronavirus-a9498076.html

[3] These benefits are spread across two COFOG (Classification Of the Functions Of Government) groups – 10.4 and 10.7, relating to "Family and Children" and "Social exclusion n.e.c." respectively.

[4] BAME individuals as such are particularly vulnerable to Covid-19, in being prone in terms of overcrowded housing, low-paid insecure work and lack of access to green space etc. (Khan, 2020).

[5] Women's Budget Group

being particularly damaging (Torjesen, 2016). The education budget, which many would argue represents an investment in the future productive capacity of the country, has fallen from 5.7% to 4.8% of GDP.

Moreover, it is not as if this occurred at a time of rapid economic growth. Far from it – GDP per capita did not surpass its 2007 level until 2015 (Office for National Statistics, 2019b). As a result, these changes resulted in substantial real-terms cutbacks across the UK. This "death by a thousand cuts" has been mirrored in employment trends. At a time when the population has grown, the number of serving full-time equivalent (FTE) police officers fell by almost 14% in England and Wales between 2007 and 2018 (Home Office, 2019b). The same trend is visible in the fire service, where the number of FTE active firefighters fell by almost 24% in England alone (Home Office, 2019a). Such numbers are mirrored across the public sector, leading to the public sector falling from 19% of total employment in 2007 to 16.2% a decade later (Office for National Statistics, 2020b), when measured on a consistent basis[6].

Whilst health spending has ostensibly been "protected" in real terms, this is rather less impressive than it looks. Due to the ageing of the UK's population, the past decade has seen a rapid rise in the proportion of the population who are elderly or have 'underlying health conditions': precisely the groups most at risk from Covid-19.

The growth of the precariat

The second argument underpinning the case for a Basic Income in the UK relates to the increasing precariousness of the labour market. Analysis by John Philpott for the Resolution Foundation reported that some 22.2% of the workforce in 2016 (up from 18.1% in 2006) were in highly precarious forms of work (Booth, 2016). Of these, a breakdown of this 22.2% suggests that 15.1% were "self-employed", 4.3% on a temporary contract, and 2.9% on "zero hours" contracts (which only comprised 0.5% of the workforce in 2006). Of the self-employed, Philpott's analysis suggested that 2 million were earning less than £8 per hour. These are the people that we often associated with the "gig economy"(De Ruyter and Brown, 2019).

However, the precariousness of the UK labour market goes further than this, with a substantial body of "permanent" employed workers subject to a high degree of job insecurity simply by not having been in their current job for long enough to be covered by unfair dismissal provisions. The qualifying threshold is two years' continuous service in their current job, which was extended from one year by the UK Government in 2012 [7] – i.e., the UK Government has deliberately extended the number of workers excluded from employment protection provisions. Hence, two key facets of precariousness are pertinent; that of insecurity of tenure and lack of employment protection thereof; and that of the resultant income insecurity (particularly for those with dependents under 16). Focussing on these starkly illuminates the degree of precarity in the UK, as depicted in Table 1.

Table 1: Incidence of precarious forms of employment in the UK, 2019 (Oct-Dec)

Employment type	Number	Those with dependents (under 19)
Dependent contractor**	737,844	245,432
Job that is "not permanent in some way" *	1,437,217	522, 194

[6] Several reclassifications due to bank nationalisations and subsequent partial re-privatisation, alongside privatisation of Royal Mail mean that the series needs to be adjusted to be consistent. The consistent series excludes these.
[7] https://archive.acas.org.uk/index.aspx?articleid=3733

Employees with current employer for less than 2 years (continuous service)	7,946,729	3,320,052
Current employees who were "out of employment" in previous 12 months	1,528,955	670,445
Zero-hours contract	701,990	274,227

Source: (Office for National Statistics, 2020c), *Labour Force Survey* (Oct-Dec)
*This is a catch-all category for temporary work, including agency work, fixed-term contracts and casual work.

** Data on dependent contractors taken from April-June 2019, as these figures are not collected in the Oct-Dec survey.

There is some overlap between these categories, generating a pool of individuals whose employment status is precarious along several different vectors. Of those whose job is not permanent in some sense, 222,241 were on zero-hours contracts. A total of 2,654,810 individuals faced significant uncertainty over their future income in the sense of being *either* on a zero-hours contract *or* a dependent contractor *or* having a job that is non-permanent in some other sense. Nearly 8 million employees were excluded from unfair dismissal provision because they had not attained two years' continuous service in their current job. Of these 564,250 were single parents (ibid). Additionally, lack of coverage of adequate sick pay for millions of workers in the UK is a significant form of market failure, as there is no incentive to stay home when ill, if one consequently does not receive an income, exacerbating the impact of a pandemic.

However, further labour market reforms remain on the agenda for the Conservative Party; Dominic Raab, currently Foreign Secretary in the UK, claimed in 2012 that "*People who are coasting – it should be easier to let them go, to give the unemployed a chance. It is a delicate balancing act, but it should be decided in favour of the latter.*"[8] Raab of course, along with four Tory colleagues, including current Home Secretary, Priti Patel; and International Trade Secretary, Liz Truss, were the authors of 'Britannia Unchained — Global Lessons for Growth and Prosperity',[9] which purported to be a manifesto to ostensibly strip back protective regulations and seek to mimic Singapore in its techno-market orientation.

Alongside an eagerness to erode the conditions of employment is a parsimonious attitude to the unemployed. This was captured in a statement from the architect of Universal Credit, former Work and Pensions Secretary, Iain Duncan Smith, who quipped in 2012 of benefit allowances that he could "live" on £53 a week[10]. In a similar fashion, the right-wing media have been ardent exponents of demonising benefit recipients as having an "easy life".[11] Eagerness to attack the unemployed does not bear up to scrutiny when assessing the impoverishing level of support provided on Universal Credit (£95.40 per week for a single person over 25) and the severe sanctions regime in enforcing job search (Pearson, 2019)[12].

However, Covid-19 has brutally exposed the fundamental flaw in constructing a labour market dependent on a large group of relatively low-paid individuals with little recourse to statutory labour rights, or a decent welfare safety net to fall back on. In this context, a large section of the workforce who might not have had any empathy with the unemployed have now found themselves having to

[8] https://www.theguardian.com/politics/2012/aug/22/britannia-unchained-rise-of-new-tory-right
[9] https://www.palgrave.com/gp/book/9781137032232
[10] https://www.theguardian.com/politics/2013/apr/01/iain-duncan-smith-live-benefits?CMP=twt_gu
[11] https://www.dailymail.co.uk/news/article-2605677/Mother-two-never-worked-encouraged-daughter-pregnant-council-house-easy-life-benefits.html
[12] For example, the requirement for parents of 3 to 4 year old children - even lone parents - to be available for work (ibid. 32).

apply for Universal Credit (over 1.5 million new applicants as at May 2020). That these new-found claimants have been shocked at the actual nature of the benefits regime, rather than what they were led to believe (Bentley, 2020), could lead to a rethink of attitudes towards the unemployed. Hence, Covid-19 has shown up deficiency of the welfare system in the UK not in terms of its inequality *per se*, but rather in terms of *arbitrarily imposing* severe precarity on the livelihoods of millions of families at little notice.

As such, one of the challenges facing any social protection system is how to deal with earners with uncertain or volatile earnings. This is rendered particularly acute with the gig economy. Universal Credit, for example, starts to taper at an income of zero (£3,500 if one has dependent children) and is very aggressive – one loses 63% of additional net income[13]. It's designed to be cheap and is necessarily compromised in order to be so. Indeed, this causes practical problems that plague Universal Credit: individuals with volatile incomes or who are paid at non-standard intervals. If one happens to earn a lot in one month then this will be clawed back out of future payments: the system doesn't operate in real-time. As a result, the system fails to ameliorate precariousness amongst the most vulnerable in society. As such, in the next section, the case is made for a comprehensive Basic Income.

A Basic Income for the UK

As noted earlier, there are typically two objections levied against a Basic Income. In our view these are inextricably bound together. Firstly, its opponents typically object to the notion of getting "something for nothing" – in this view it is unethical for individuals to receive an income without working for it – and secondly it is derided as unaffordable.

However, our collective application of the principle is decidedly patchy. We take steps to protect pensioners from destitution *even when they have spent a significant portion of their lives out of work.* Moreover, we do not engage in confiscatory taxation of inheritance. It's difficult to argue that people "deserve" a significant inheritance – it comes like manna from heaven. The argument that this is private property is of dubious validity: it could be used by the state to reduce the taxes paid by others. In any event, it is difficult to make the argument that all of those with a low (or zero) income deserve their fate. Almost all developed countries have some form of social protection system, in order to provide a safety net for the vulnerable and unlucky. For most of us there is also a more selfish motive: witnessing significant hunger, homelessness and destitution is a deeply distressing experience.

The second; that of 'affordability' is a rather more pressing challenge. Modern social protection schemes are only 'affordable' because they impose extraordinarily high tax rates on the first few thousand pounds of income. Universal Credit claimants never pay less than 63% and effective marginal tax rates are often as high as 75%. It is unsurprising that such high marginal tax rates offer a significant disincentive to working and can imply a marginal net wage as low as £2.18 per hour. When the rewards of work are meagre, there must be significant penalties associated with not working. The inevitable result is a vast, costly and bureaucratic system of 'command and control' to enforce work. This system of enforcement has led to significant holes in the social safety net – see e.g. BBC News (2020) - reinforcing precariousness. It is fundamentally unjust that the poor should face the highest marginal tax rates.

[13] https://www.gov.uk/universal-credit/how-your-earnings-affect-your-payments

A Basic Income removes the conditionality associated with traditional benefit schemes and can dramatically reduce the effective marginal tax rate of the poor. However, it is also likely to unambiguously worsen the work incentives faced by a significant proportion of taxpayers (Van Parijs and Vanderborght, 2017). It is this that lies at the core of the "trilemma" identified by Martinelli (2019). There is no easy way to avoid this, although we would stress that the current system is simply another compromise. Thus, at the heart of the 'affordability' conundrum lies an unpalatable truth – affordability is a *choice.*

The absence of a 'perfect' system should not blind us to the reality that some are notably better than others. The present pandemic has demonstrated the fundamental weakness associated with conditional social protection systems. Since a partial basic income risks manifestly failing to deliver (Martinelli, 2019), we therefore argue that a full basic income is the *only* viable capitalist solution to precariousness, for which the present pandemic has served to amply demonstrate this.

An affordable Basic Income in practice

The challenge of affordability is twofold. Firstly, we wish to minimise the rate of tax levied on labour income in order to reduce adverse behavioural responses. Secondly, we pay careful attention to the *framing* of affordability. For a Basic Income to be practical it must be done in a politically acceptable manner. Finally, we acknowledge practical limitations and suggest a phased introduction of a Basic Income for all. Since pensioners already receive something akin to a Basic Income via a combination of the state pension or pension credit top-ups, a large number of pensioners are already in receipt of something akin to a Basic Income. The generosity of this system is a significant contributory factor to recent falls in pensioner poverty, in spite of a stagnant economy (Francis-Devine, 2020).

Our central scenario envisages a Basic Income of £8,500 per adult and £4,250 per child (the rationale for this is detailed in Appendix 1). The gross cost of our scheme is some £388bn and so is slightly more expensive than some of the schemes discussed in the literature (e.g. Martinelli, 2019)[14], although it is also considerably more generous than most of them. However, one of the major benefits of a Basic Income is the elimination of means-tested benefits. Additionally, we propose a "clawback" starting at zero additional earnings at 16.8%. The rationale behind this is as follows: a Basic Income necessarily entails a change in the tax schedule, moving the high effective marginal tax rate away from low earners towards higher ones. However, "tax rises" to fund a Basic Income are likely to be unpopular, particularly given the (ill-founded) criticism that the scheme also benefits high earners.

Imposing a "clawback" neuters both political objections at once, without changing the substance of the scheme. A clawback is mathematically identical to imposing a higher marginal tax rate on a certain range of income. The difference is in the political messaging. This is akin to the similarity between a basic income and a negative income tax, in spite of the philosophical issues raised by some (Tondani, 2009). The net effect of these two measures is to reduce the cost of a UBI to less than £192bn.[15] Naturally this poses challenges to affordability, although it should be noted that the

[14] Lansley and Reed (2019), for example, proposed a partial basic income of £60 a week to adults (18-64). In addition, mothers would get £40 a week extra per child and adults 65+ would receive £175. This would be funded by tax increases of £28 billion. The authors also proposed a more ambitious UBI funded out of a 'Citizens Wealth Fund' (ibid.) and hence not requiring tax rises, but this would be phased in and hence constitute a distinctly longer-term measure.

[15] A proportion of the 5m self-employed would also end up with a clawback. Our scheme is designed so that everything is clawed back by £50,000 (approximately 90% of wage earners earn below this amount).

present system is ‘affordable’ *only* because it imposes very high effective marginal tax rates on low-income earners and, as mentioned previously, involves a rather punitive sanctions regime.

As such, we propose funding a Basic Income by using a combination of tax measures, as calculated and detailed in Appendix 1. In total we estimate that the measures detailed would generate approximately £253.9bn of additional revenue. In total, therefore, we estimate the following additional tax incomes:

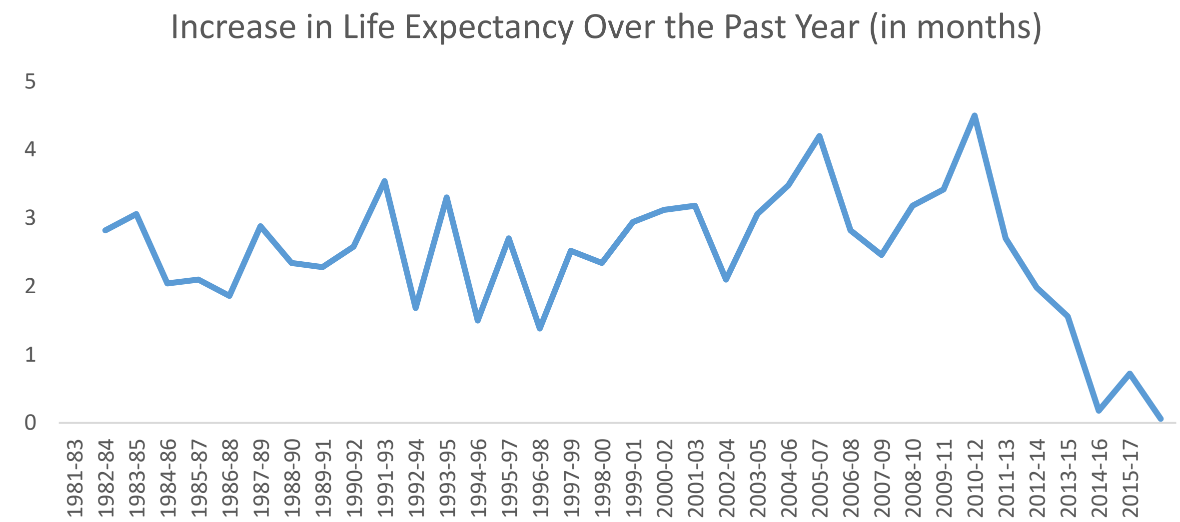
- £113-123bn in additional income taxes
- £12bn in additional Corporation Tax
- £41bn in additional consumption taxes (VAT)
- £50-100bn in new property taxes (net value, after eliminating Council Tax and Stamp Duty Land Tax)
- Some £45-50bn from a financial transactions tax

It is our view that a comprehensive Basic Income as that articulated here is pivotal, indeed essential in order to address the precariousness experienced by a growing number of workers, but moreover that it is affordable, and politically expedient. In the penultimate section, wider issues pertaining to the introduction of a Basic Income and related welfare issues in the context of the current pandemic, are considered.

Implications for the State and Society:

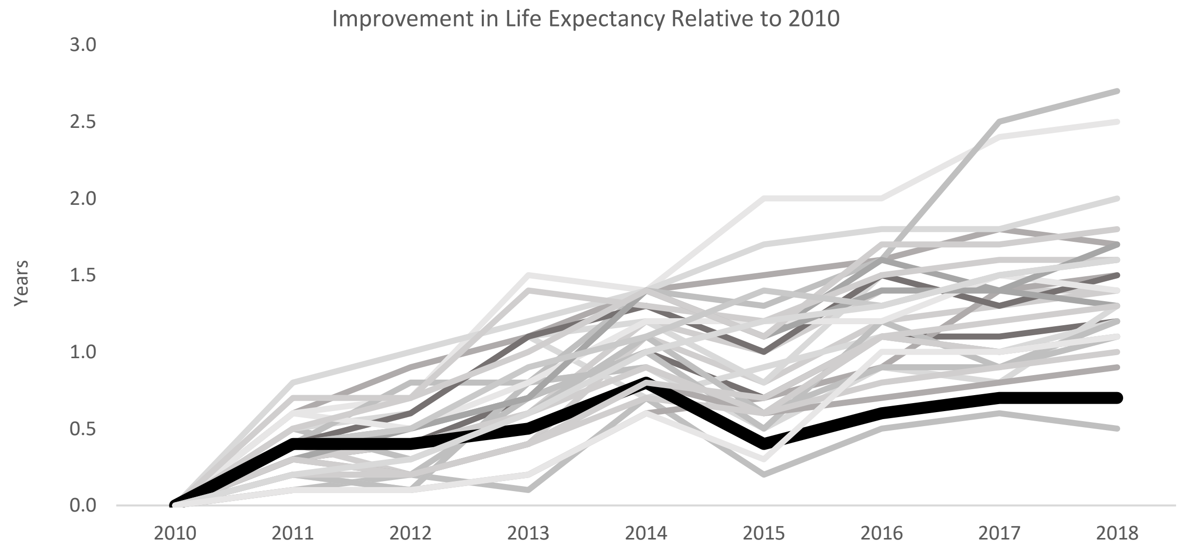
The material presented in previous sections illustrates that a comprehensive Basic Income in the UK can be affordable and address poverty. To reiterate the central premise, the Covid-19 pandemic has demonstrated in stark fashion the precariousness of existence faced by much of the workforce, and the inadequacy of the benefits system, with its stringent means-testing, delays in vital payments and punitive sanctions regime. Far from being a “great leveller” the SARS-Cov2 virus has exacerbated the inequalities present in the UK: women, BAME individuals, and otherwise low-paid and insecure of tenure have all suffered disproportionately. To reiterate, with an estimated death toll of over 40,000 at the time of writing, the pandemic has brutally exposed the shortcomings of UK Government labour market and welfare policy over the past ten years.

This failure is all the more aptly borne out when one considers the trends in life expectancy in the UK over the past decade (*before* the current pandemic). What is distinctly noticeable in the UK is that the increase has slowed to virtually zero. Indeed, one notices a sharp decline coterminous with the change of Government in 2010. As such, it is reasonable to say is that the welfare outcomes manifest in the UK do represent the outcome of deliberate political *choices*. This should be sobering food for thought for anyone concerned with the cumulative impacts of cuts to spending on public services and other amenities designed to preserve the social fabric of a country, as ‘talk’ of “how to pay” for the crisis gathers pace (Hearne, 2020). Tentatively, it can reasonably be argued that Covid-19 will exacerbate the negative trend here still further.



Source: Office for National Statistics (2018)

However, there is another contrast worth noting, and that is the comparison between the UK in terms of life expectancy trends, and other comparable developed countries. The UK is significant in that life expectancy across advanced economies has generally continued to rise. It is in this context that the case for a Basic Income has renewed appeal.



Selected European states, including all EU members with a population over 3 million. Emphasis on UK. Data sourced from Eurostat (2020b)

Conclusion

This article has outlined how a Basic Income can be affordable at a generous level for the UK. We argued that the essential precarity of the UK labour market and failings of the welfare system in the current Covid-19 pandemic have served to reiterate the importance of a Basic Income. Whilst a Basic Income on its own cannot guarantee decent health outcomes, in remedying the precarity of the labour market it would serve to provide a modicum of security (and hence wellbeing) for individuals and families alike. Moreover, once established as a key element of the welfare system, its levels could be readily adjusted to cope with contingencies of the sort that Covid-19 has generated (e.g., by supplementary cash grants or revising claw-back thresholds). Ultimately, the degree of precarity and inequality that a society faces is one of choice. As the UK struggles to cope with the pandemic and calls to "re-open the economy" gather pace, it remains to be seen whether Basic Income will become an accepted part of the political landscape.

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Appendix 1 – Costing a UBI

Our central scenario envisages a Basic Income of £8500 per adult and £4250 per child. The rationale is as follows. The existing Universal Credit system pays £409.89 per month to a single adult over the age of 25, plus their local housing allowance. The latter varies by area and is linked to market rents. For a mid-cost part of the country, this implies a total payment of just under £8500 (as a reference, the payment to a single individual aged 30 in Birmingham would be £8402.68) to an individual.

It can be argued that individuals living in high-cost regions (notably, but not exclusively, London) and those aged over 35 who live in single-person households are worse off under our proposed system. However, we would suggest that this is only the case in a very limited sense and arises primarily out of the inequity of existing provisions. Living in a costly area with high quality amenities is a choice, not a necessity. It is profoundly unjust that those living in poor areas should receive less than their counterparts living in a more salubrious areas[16]. An additional side-effect of the present system is that it inflates rents in high-cost areas, with a substantial portion of the payment potentially going to landlords.

Our payments for children are moderately more generous than Universal Credit and Child Benefit combined, with scope to increase this further. Having children is closely correlated with most measures of poverty (Barr, 2012). Currently, almost 20% of working age adults with dependent children are in receipt of means-tested state benefits (Office for National Statistics, 2020c), compared to below 8% of working-age adults without dependent children. Increasing payments for children is an effective way to reduce poverty and carries a lower cost compared with paying a basic income to adults.

The gross cost of our scheme is some £388bn. However, one of the major benefits of a basic income is the elimination of means-tested benefits. We propose retaining existing additional payments to disabled individuals, since these are designed to compensate for the higher cost of living they experience as a result of their disability. At present, not counting disability benefits (a total of £46.3bn), the UK Government spends approximately £72.3bn on various income contingent benefits (HM Treasury, 2019). These include £48.2bn on income support, tax credits, family benefits and Universal Credit and a further £22.5bn on housing benefit in addition to £1.7bn on unemployment (*Ibid.*) Eliminating these means that the net cost falls to some £316bn.

This is somewhat more expensive than some of the schemes discussed in the literature (e.g. Martinelli, 2019), although it is also considerably more generous than most of them. Naturally, this poses challenges to affordability, although we note that the present system is affordable only because it imposes very high effective marginal tax rates on low-income earners and involves a rather punitive sanctions regime (Pearson, 2019; Van Parijs and Vanderborght, 2017). We propose funding the basic income using a combination of tax measures.

Taxes on Income and Consumption

Caution should be urged at this juncture: the behavioural consequences of tax rises are highly uncertain, although the HMRC figures we use do attempt to estimate this. Eliminating the personal allowance is estimated to raise between £78bn and £85bn, whilst doing the same for National Insurance raises a further £27bn (Her Majesty's Revenue and Customs, 2020c). We propose

[16] In any event, a single-person household under the age of 25 living in a relatively high-cost area (North West London) would have been entitled to under £9000 per annum under the pre-Covid-19 payment levels, which is close to our proposed figure. Couples living outside of London will be unambiguously better off under our proposed system, with virtually all couples being better off compared to the pre-Covid19 payment rates.

increasing the higher rate of income tax by a further 8p and the additional rate by 3p, raising a further £8bn-£11bn (*ibid*). As such, a total of between £113bn and £123bn are raised from various income taxes.

A further £12bn can be raised by a 5 percentage point increase in the rate of corporation tax (*ibid*). It should be noted that this would still leave corporation tax lower than its 2010 level. Finally, a 5 percentage point increase in VAT (which ultimately functions as a consumption tax) and elimination of the reduced rate raises a further £41bn. Whilst VAT is often derided as a regressive tax, it has merit as it captures spending by those who might avoid income taxes[17]. Moreover, our other measures are highly progressive. We propose increasing capital gains taxes to a level equal with income tax. The revenue raised from this move is trivial, but it is both equitable and reduces the ability of individuals to avoid tax by substituting income for capital gains.

Taxes on Wealth

Wealth in the UK is taxed much more lightly than earned income (REF). Whilst much of this is to avoid double-taxation (if earnings pay for the acquisition of an asset then taxing the value of that asset is not optimal), this is far from true in every case. This is particularly egregious in the case of housing. Within the UK, property wealth is both unevenly held and undertaxed relative to other assets. The UK's stock of housing wealth (note that this is net of mortgage debt) is worth approximately £5trn (Office for National Statistics, 2019a) and is highly unevenly spread with a gini coefficient of 0.66. The cost of a relatively generous UBI is therefore in the region of 5% of total net housing wealth.

Property Wealth

At present in the UK, the taxes levied on property are rather archaic, being a combination of an annual levy to partially fund local government – "council tax" - and a portion of the value of the property at the time of sale – "stamp duty land tax". Council tax is based on the property's "rateable value" in 1991 and raises some £30bn (Her Majesty's Revenue and Customs, 2020b), whilst stamp duty land tax raises approximately £12bn (Her Majesty's Revenue and Customs, 2020a). Neither are sensible or optimal tax policies and council tax in particular is quite regressive. Since its ostensible purpose is to pay for local services (being one of the few taxes that is payable to local government) it is payable by renters and homeowners. Again, a series of exemptions and reductions exists based on often arbitrary criteria. There is a strong argument for a complete overhaul of local taxation in the UK, but such a discussion is beyond the scope of this paper.

An ideal solution would be a land value tax. This would retain optimal incentives (the supply of land is fixed, and as you're taxing the value of land and not the value of any structures built upon it there remain strong incentives to improve properties) and could theoretically allow us to substantially reduce taxation of incomes. However, there are practical challenges in its implementation and such a tax would be politically unpopular (although perhaps no less unpopular than some of our proposed tax changes). Various figures have been mooted for how much such a tax might raise, although most estimates are substantial (e.g., Barnaby and Pierce, 2017).

Estimates of the average value of residential land in each Local (District) Authority in England were produced by the Ministry of Housing Communities & Local Government (2018). By combining this with the land area of each Local Authority and information on land-use by District we can estimate the total value of residential land in England. According to these data, this is approximately £4trn,

[17] The adage income tax "taxes some of the people all of the time" whilst VAT "taxes all of the people some of the time" is apposite here.

which fits relatively well with the estimated £6trn of gross housing wealth in Great Britain. Given the preponderance of housing wealth concentrated in London (around 40% of all residential land value is in this region), the inclusion of Scotland and Wales is likely to have only a very modest impact on the overall value of residential land in Great Britain.

If we assume that England's proportion of Great Britain's total residential land value is equal to its proportion of total residential property value (just under 91%) then the total value of residential land in Great Britain is £4.46trn. This seems a reasonable approximation. Such a tax has the rare advantage of being simultaneously economically efficient and also progressive. Whilst there are likely to be administrative challenges, many of these represent one-off disputes and should not prove insurmountable (Mirrlees et al., 2011).

Aside from this, two practical challenges present themselves alongside one more conceptual difficulty. Firstly, as the tax is linked to an *asset* rather than a flow of income, many individuals who are "asset rich but cash poor" might struggle to pay it. The solution to this is to give the option to defer payment to the time of sale. The second is that a substantial volume of residential property is held by either councils or housing associations as "social housing", for the benefit of poorer residents. In theory, a sufficiently generous basic income should obviate the need for this. For most of the country, our basic income does achieve this objective. In the small number of areas where this is not the case (mostly London), a phased elimination of subsidies should be adopted. We reiterate the argument that it is neither efficient nor equitable to subsidise those who choose to live in expensive districts.

The conceptual challenge is to decide at what rate land value should be taxed. For much of the country, a rate as high as 5% of total land value should be affordable (being little more than Council Tax, which this tax would replace, in most mid-cost areas). However, this is rather higher than most estimates of long-term real interest rates. If we assume a lifespan of 125 years for an average residential property, the Treasury Green Book envisages a long-term discount rate of some 2.5%. For most of the country this would be a much lighter tax than Council Tax is (we estimate the average property in Birmingham would pay around £910, for example), although some high-cost areas would be taxed much more heavily.

Such a rate would raise around £110bn per annum. Even if such a tax replaced Council Tax, it would still raise a net £80bn per annum. Of course, a lower rate (for exceptionally long-lived projects the Green Book suggests a long-term discount rate of 1%, which is arguably appropriate in the case of land) would deliver a lower tax take. For reference, 1% would deliver just £14bn once the elimination of Council Tax is considered and would have a net additional tax take of close to zero if Stamp Duty were also abolished. The net new tax take therefore varies between £2bn and £70bn depending on the rate that is set. A rate of 1.5% would deliver around £45bn per annum.

Such a tax would be highly progressive: property owners in Hartlepool would pay just £386 per annum on average – far lower than their current Council Tax bills. Meanwhile, those in salubrious Cambridge (who, let us remember, are wealthy by dint of their ownership of a very substantial asset) would pay on average around £2552 per annum – in the region of double current Council Tax bills. Only those in the very wealthiest locales would pay substantial amounts, with freeholders in Kensington & Chelsea subject to a tax of £12,600 per annum on average[18].

[18] The estimates for London boroughs are represent a somewhat fictional situation, being the amount payable for the freehold of an individual flat. In practice, the freehold is typically held for a block of flats. Again, in practice the amount raised would be lower due to the presence of social housing. Since the basic income will

In line with Mirrlees, et al. (2011), we also suggest taxing rents – including imputed rents – as a consumption good (implying that VAT should be levied). However, it is desirable that we ensure that we are taxing the *consumption services* of the dwelling and not duplicating taxation of land. This is surprisingly difficult to do since at least some of the value of rents are to pay for the implicit value of nearby amenities, which are captured with a land value tax (areas with good schools and green spaces typically attract higher rents than areas with poor schools and concrete facades).

Total imputed rent in the UK in 2018 was approximately £176bn (Office for National Statistics, 2020a) suggesting that VAT of 25% could raise £36bn from this source[19]. In theory, a further £14bn can be raised from VAT on actual rents at this rate. However, given the above discussion over land values, a better solution might be to levy VAT at a reduced rate and a slightly higher land value tax. Even a 12.5% VAT would raise around £28bn. Of course, imputed rents are also a form of *income* for households, in much the same way that dividend income from shares is and theoretically could also be liable to income tax. However, we are of the view that a Land Value Tax is a better instrument since in theory *all* of the rents due to the land itself can be taxed away (leaving just a string of payments for a consumer durable, on which VAT would be levied as it would on a car or washing machine). In total, therefore, we estimate that property taxation can raise anywhere between £52bn and £100bn per annum.

A financial transactions (Tobin) tax

Although long-mooted and very widely discussed in the economics literature, there has hitherto been only limited practical interest in a financial transactions tax. There are certainly risks to such a form of taxation, potentially disadvantaging the City relative to other financial centres or encouraging firms to domicile elsewhere. Nevertheless, whilst there is huge uncertainty over whether it would succeed both in its original stated purpose (in terms of reducing market volatility) and as a revenue raising device.

A wide synthesis of the available evidence commissioned by the Department for International Development concluded that such a tax would be feasible and had the potential to raise significant revenues (McCulloch and Pacillo, 2011). Using their central estimates, a financial transactions tax set at 10% of transactions costs would raise around £20bn if over-the-counter (OTC) transactions were excluded[20].

Including OTC transactions could net a total of £163bn, although this is largely because transaction costs for OTC transactions are so much higher (and so an effective tax rate of 0.076% is levied). This suggests that even if OTC transactions were taxed at a much lower rate – say 0.016% - there is still very significant revenue-raising potential (around £45-50bn in total). Efforts to reduce tax-avoiding behaviour have also spurred interest in some form of "digital tax", although the likely revenue-raising potential of such taxes is modest.

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remove the need for such housing, we anticipate that the amount raised will tangentially approach our estimates as councils and housing associations move to charge market rents. This will remove the anomalous situation where the level of state support one is entitled to depends on seemingly random factors, including one's support history and where one lives (not to mention the absurd situation where those working at minimum wage in poor regions are supporting market rents in a global megacity).

[19] Note that this is 25% of the price received by the seller of the product and not 25% of the price paid by the buyer. Since supply of property is extremely inelastic (ultimately being governed not by market forces but by the state via its control of planning regulations), the theoretical ramifications are obvious: the burden of taxation falls almost exclusively on the landlord who is forced to reduce her price by 20%. The revenue raised by government is therefore 20% of the total value of current imputed rents.

[20] This would be an effective tax rate of 0.004% and 0.002% for derivatives and forex transactions respectively.

Conclusion

In total, therefore, we estimate the following additional tax incomes:

- £113-123bn in additional income taxes
- £12bn in additional Corporation Tax
- £41bn in additional consumption taxes (VAT)
- £50-100bn in new property taxes (net value, after eliminating Council Tax and Stamp Duty Land Tax)
- Some £45-50bn from a financial transactions tax

We also propose taxing unearned income at the same rate as earned income (effectively via eliminating employee Class 1 employee National Insurance and Class 4 National Insurance and replacing them with income tax. This would leave the tax paid by income earners unchanged, but would levy approximately an additional £12bn from unearned income (Her Majesty's Revenue and Customs, 2020c). However, this would be used to top up pensions such that every pensioner received a state pension of at least £8500. This would guarantee that no pensioner would be worse off than their working-age counterparts. Relatively few would be affected by this change (pension credit essentially guarantees a minimum income already), but it would predominantly act to benefit female pensioners without a full National Insurance record.

This suggests net additional taxes of between £211bn and £326bn can be raised, although there is considerable uncertainty over these figures and how they might evolve over time. Even a conservative interpretation, however, suggests that the tax take would be sufficient to cover our proposed basic income, providing it is tapered. As such, although not a *universal* basic income, it is functionally identical to a UBI and higher marginal tax rates. Since the effective marginal taxes implied by this scheme are high (particularly for middle-income earners), we believe a more sustainable system involves using any additional revenues from property taxes, wealth taxes and VAT over time to reduce the basic rate of income tax. If our proposed taxes were to raise £250bn, this would give sufficient fiscal headroom to reduce income tax by 9p, which would go a substantial way to reducing the high effective marginal tax rates associated with a basic income.

Finally, we note that current estimates of the cost of measures to tackle the economic impact of the spread of the novel coronavirus (SARS-CoV2) are very large. Much of this support could be sensibly replaced by a basic income, making the present a particularly apposite moment to introduce such a policy, temporarily financed via deficit spending.