A Universal Basic Income and affordability

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In his speech yesterday, Chancellor Rishi Sunak outlined radical measures to offer income guarantees to the self-employed (who number some 5 million) in the UK to help combat the Coronavirus (Covid-19) pandemic, providing that they had lodged a tax return in 2019 and had an average annual profit of less than 50,000. Such individuals would be eligible for 80% of profits up to £2,500 per month, based on average profit over the last 3 years.

Suffice to say, the Chancellor went on to detail that they would not receive any payment (a lump sum) until June. For individuals caught short in financial terms before then, they were left with the recourse of having to sign-on for Universal Credit, though the Chancellor was at pains to point out that the Department of Work and Pensions (DWP) could make cash-advance payments to individuals demonstrating hardship within "days".

At this point it must be said that these are radical measures – especially for a *Tory* government; and one committed to a regulatory divergence agenda from that of EU standards, which critics deride as a deregulatory 'race to the bottom'[1]. As such, they are commendable – but are they good enough?

We would argue, no. No in the sense that the onus will now be on individuals to demonstrate that they are eligible to receive this assistance, and will have to jump through the hoops of signing on for UC in the interim (with the prospect of a five-week wait) when the DWP are already being overwhelmed with nearly half-a-million people having tried to sign on over the past two weeks. With YouGov polling data suggesting some two million Britons have been made unemployed over the past two weeks[2], the human cost of combating the Covid-19 outbreak will be severe (in many ways).

Beyond that, we need to consider the depth of the problem in the first place. First, the capacity of HMRC and the DWP to process applications. Like the rest of the Civil Service, they have been subject to hollowing out and job-shedding. Ironically, this was under the same party (and many of the same MPs) that now postures to “protect the NHS”. HMRC alone saw some 16,000 jobs cut over the past ten years and faces major logistical difficulties in servicing these income guarantees, in addition to auditing taxpayers and having to face customs preparations for a likely Hard Brexit at the end of this year.

Second, the Government, has presided (deliberately, one might say, given its *pen chance* for deregulatory zeal in the labour market) over the creation of the gig economy which has seen some 25% of the workforce left without basic protections such as sick pay. As such, it has found itself caught out over individuals who might be ill, yet will still go to work, thus potentially spreading the Covid-19 contagion.

Finally, the rising incidence of children living in poverty and use of food banks in the UK (at record levels) points to the stark erosion of the benefits system (most notably in the form of working family tax credits) that has put a severe strain on ordinary families – with single-parent households particularly vulnerable.

For us, this suggests that far from being a panacea, the Chancellor’s measures must be seen as temporary, or just “sticking plaster”. In contrast, we argue that it is time for a root-and-branch reform of the UK tax and benefits system, to embrace the concept of a basic income, so as to protect employees, gig workers, carers and children alike. We have argued elsewhere about such an income being *contingent* (REF Conversation piece here) on engaging in some kind of economic activity (work, training or caring) but acknowledge that this would come with enforcement costs. Hence, at this crucial juncture we wish to elucidate the case for a basic income first and try to ascertain the cost – i.e., would it be affordable by UK PLC?

To commence, let us consider the relevant population. There are a total of 66.4 million individuals currently living in the UK, according to the most recent official figures (Office for National Statistics, 2018b). To pay each and every one of them an amount equivalent to the current state pension (£8767.20 per annum) would cost £582.5bn. The UK economy is approximately £2tn in size (Office for National

Statistics, 2019), so this amount would be in excess of 25% of GDP. Current government spending is in excess of £800bn.

However, the true cost of a policy is its net additional cost and here things become somewhat murkier depending on eligibility and the precise policy formulation. After all, of this 66.4million people, not all will be eligible for a basic income: some will be international students and others will fall into migrant groups ineligible for such a payment.

In the most recent fiscal year (2018-19) the UK Government spent £117bn on pensions (HM Treasury, 2018), which is overwhelmingly accounted for the by state pension and various top-ups. Since pensioners are already paid a state pension, the basic income would replace this (at zero detriment to them). This would reduce the net cost of a UBI by just over £106bn to a total of £475.8bn.

In addition, a decision needs to be made regarding payments to children (under 16s) and young adults (16-21). Payments to the under 16s would cost approximately £110.7bn, so removing these would bring the net cost down to £365.1bn. However, there is a reasonable argument to be made for including children, both in order to alleviate child poverty and in order to fund future retirees[3].

A potential solution, therefore, might be to include children at a reduced rate – say 50%, although the figure is up for debate. This would bring the total cost back up to £420.5bn. However, given that post-16 education is essentially compulsory in England (and widespread in Scotland, Wales and Northern Ireland), payments at the reduced rate should also apply up to 18.

In fact, we can go further: 50% of 18-year-olds attend higher education and the reduced rate payment is not dissimilar in amount to the portion of student loans that cover living costs. A further substantial number attend further education and many continue living at home. As such, we propose that the reduced payment should continue until 21, reducing the overall cost to £400bn exactly.

At present, not counting disability benefits (a total of £46.3bn), the UK government spends approximately £72.3bn on various income contingent benefits. 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. In theory, a sufficiently generous UBI obviates the need for any of these, reducing the net cost to £328.0bn.

Indeed, the true cost is lower yet. For those earning above the threshold a basic income functions in much the same way as a personal allowance. As such, it obviates the need for such a piece of taxation trickery. For individuals above the personal allowance threshold, their marginal tax rate (and therefore work incentives) remain unchanged.

The Annual Survey of Hours and Earnings (Office for National Statistics, 2018a) is a 1% sample of all PAYE employees. It gives an estimate of just over 22.4 million jobs in this category, of which over 80% earn over the personal allowance. Removing this increases the tax take (again, without changing their work incentives) by £44.9bn. A further 10% earn between £8200 and £12,900. If we assume a midpoint of approximately £10,000 this adds another £4.5bn, whilst very low earners probably contribute an additional £1-2bn.

Additionally, removal of the earnings thresholds for payment of employees National Insurance raises £14.1bn. For those under the earnings thresholds, this theoretically entails an increase in their marginal tax rates. In practice, however, there are very few individuals earning below £12,500 who would not be in receipt of some form of government benefits or subsidy. Since these are withdrawn quite aggressively as incomes increase, almost all of these people will see their effective marginal tax rates reduced (typically from around 60% to 32%).

In total, this reduces the net cost by a further £65.5bn to £262.5bn. We know that the employed labour force numbers just under 33 million (Office for National Statistics, 2017), which suggests that around 10.5 million workers have not been captured. Of these, there are believed to be in excess of 5 million self-employed and around 5 million employees (*Ibid.*)

If the 5 million additional employees have the same earnings profile as the remainder of the workforce then that would conservatively raise an additional £13.2bn. It is not clear how accurate this assumption is – presumably they are more likely to be in marginal or low-income employment, although it is possible that the discrepancy is due to statistical artefacts.

The 5 million self-employed are believed to be largely lower-income individuals, although Philpott[4] estimates that over half earn in excess of 60% of median earnings. This suggests at least an additional £8bn from this source and potentially much more. Finally, there are those (predominantly but not exclusively retirees) who do not work but have substantial non-labour incomes. We have not estimated figures for these.

In short, the net cost of such a (UBI) policy is likely to be well below £240bn per annum. A reasonable estimate might be in the region of £200-220bn on top of existing state expenditures. It would therefore be an affordable but extremely expensive programme. However, further substantial cost savings could be envisaged either by restricting eligibility or by reducing payments (either to certain groups or in totem).

It is likely that overall incentives to work would increase, although a significant increase in taxes would be needed to fund such a generous UBI. The net effect would be to render the tax and benefits system significantly more progressive than at present.

As such, we think that at a shift to a basic income model of tax and benefit provision, whilst “expensive”, would be affordable – and the costs of this could be offset against additional revenue-raising measures. The time has come to rethink how we look after our most vulnerable individuals.

[1] Gomez-Arana, A., Rowe, J., De Ruyter, A., Semmens-Wheeler, R. and Hill, K. (2019), ‘Brexit: ‘Revolt’ against the ‘elites’ or Trojan horse for more deregulation?’ *The Economic and Labour Relations Review*.

[2] https://yougov.co.uk/topics/politics/articles-reports/2020/03/24/how-covid-19-affecting-british-opinions-jobs-and-w

[3] Retirees and children are analytically similar, in spite of their very different treatment under current regulations. Retirees (irrespective of pension type or source) are funded by the economic output of those currently working (Barr, 2002). The mechanisms by which this occurs

can be either opaque – as in occupational or private pensions – or transparent (as with a state pension), but it is analytically incontrovertible.

Children are also funded by the economic output of those currently working: predominantly via their parents. The difference is obvious: retirement is collectively funded whilst children are privately funded. This creates an incentive for individuals to have “too few” children – they must fund those children themselves, whilst being able to “free-ride” on the output of the children of others in their old age. The obvious solution to this is to fund many of the costs of children collectively.

[4] https://www.theguardian.com/uk-news/2016/nov/15/more-than-7m-britons-in-precarious-employment

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