Progressive Economics Group (PEG)
Policy Brief

Universal Basic Income

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Policy issue

A universal basic income (UBI), tax-free weekly income to every individual, provides an administratively simple method to resolve a range of social problems.

Could a basic income programme that substantially reduced poverty be introduced quickly and would it be affordable?

Analysis

Critics argue that a fiscally feasible UBI programme would not pay enough to be worth the bother of change, while one which paid a decent rate would be too expensive. To assess this criticism we modelled two different approaches to implementation. The first tested a 'full scheme', one which replaces most, though not all, benefits.

The simulations show that a full and generous scheme, one that swept away most of the existing system of income would be either too expensive, or fail to cover many low income households. A full scheme would not be feasible in the current circumstances.

However, a modified scheme that provided a universal and unconditional income at a moderate starting level, leaving much of the existing system intact, would be feasible. Feasible in terms of funding would be payments set at £51 for pensioners, £71 for adults over 25 and £61 for those under 25, and £59 for children. The basic income for children would replace child benefit, and all other social support would remain. UBI payments would be taken into account as income when calculating means-tested benefits.

Policy framework

Such a scheme would offer real and substantial gains:

1) sharp increase in average income amongst the poorest,
2) cut in child poverty of 45 per cent,
3) modest reduction in inequality, and
4) strengthening of the universal element of the social support system leading to a fall of a fifth in the number of households claiming means-tested benefits.

The modified scheme has two key changes to existing social support: the replacement of the personal tax allowance (of no benefit to those with earnings below the tax threshold) with a flat-rate payment to all; and changes in tax and national insurance contributions. Marginal income tax rates would be increased, with the basic and higher rates rising from their current 20% and 40% to 25% and 45% respectively. The national insurance lower earnings limit would be abolished and the rate of employee NICs increased to 12% across the earnings scale, effectively abolishing the upper earnings limit.

These changes produce a more progressive and integrated tax-benefit system, with reductions in poverty and inequality, a strengthening of universalism, and part of means testing shifted to the tax system. The modified scheme has a net cost of around £8 bn per year, just under 0.5% of GDP. This is calculated based on taking the gross cost of paying UBI to all individuals in the UK and netting off the increased income from income tax and National Insurance Contributions, and savings from reduced spending on other benefits and tax credits, as follows:

Gross annual cost of implementing UBI:	**£209.5 bn**
Minus: savings from reduced payments of other benefits and tax credits	£36.1bn
minus: increased income tax and NIC receipts	£160.6bn
***equals:* net cost**	**£8.2bn**

This is a modest sum in the context of overall public spending and compared to the substantial reduction in poverty and inequality. It would reduce the level of child poverty on one widely used measure (those in households falling below 60% of median net household income, before housing costs) to below a tenth, less than the level for any year since 1961.

The results are based on a static analysis, assuming no behavioural effects in response to the introduction of UBI and the tax changes. In practice, there would be dynamic behavioural effects, including on employment. Such a scheme would retain some of the complexity of the existing system, while creating a genuine unconditional income. It would deliver many of the benefits of an ideal scheme.

For further details see H Reed and S Lansley. *A Universal Basic Income, An Idea Whose Time Has Come?* Compass, 2016

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