Is a Citizen’s Basic Income Financially Feasible?

Fiscal, distributional and work incentive effects of the IPR’s illustrative schemes

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Outline

• What we modelled and why
• Fiscal and distributional effects
• Implications for static work incentives
• Some limitations of the microsimulation approach
The IPR’s models

- ‘Full’ schemes paid at different levels relating to existing benefits
  - Full vs. partial basic income
  - Why?
    - Others have modelled partial / hybrid schemes (Reed and Lansley, 2016; Torry, 2016)
    - Full schemes retain range of advantages over partial schemes
  - Supplements to compensate for loss of disability premiums
- Basic incomes for different age groups
  - Young people 18-25, Pensioners
- Interested in:
  - Trade-offs between fiscal and distributional goals – affordability and adequacy
  - Static work incentives
  - Breakdown of effects by demographic – income level, labour market status, family type, disability, sex
## Comparison of gross costs and distributional consequences

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Gross cost (For comparison, total benefit spending in 2016-17 was £210bn)</th>
<th>Tax / benefit changes and saving</th>
<th>Change in household poverty level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full scheme 1: £73.10 for working-age adults; £155.60 for pensioners; and £67.01 for children</td>
<td>£288bn</td>
<td>Elimination of BSP, CA, CB, CTC, ESA, IS, JSA, PC, and WTC plus PITA £212bn</td>
<td>+3%</td>
</tr>
<tr>
<td>Full scheme 2: as above plus payments corresponding to standard disability supplements</td>
<td>£326bn</td>
<td>As above £214bn</td>
<td>-19%</td>
</tr>
<tr>
<td>Full scheme 3: as 1 plus value of personal income tax allowance (£42.19 per week)</td>
<td>£427bn</td>
<td>As above £217bn</td>
<td>-39%</td>
</tr>
<tr>
<td>Young adult’s income</td>
<td>£26bn</td>
<td>Elimination of ESA, IS and JSA for 18-25 £2bn</td>
<td>-8%</td>
</tr>
<tr>
<td>Citizen’s pension</td>
<td>£95bn</td>
<td>Elimination of BSP and PC £71bn</td>
<td>-3%</td>
</tr>
</tbody>
</table>
Distributional effects of revenue neutral full schemes

- Changes to tax system
  - Eliminate personal income tax allowance and harmonise national insurance rates at 12%
  - Full scheme 1 requires increase of 4% across all tax bands
  - Full scheme 2 requires increase of 8% across all tax bands
- Replacing complex benefit structure with modest uniform payments leads to poor households losing out
  - Full scheme 1: increases in poverty and inequality rates (+10% and +4%); majority of single-headed and workless households lose income
  - Full scheme 2: reduction in poverty and inequality rates (-7% and -5.5%) but still large numbers of poorer households lose out (20% of the poorest quintile become poorer)
Participation tax rate is a static measure of the financial incentive to work vs. receiving benefit – how much gross income is taxed away?

- PTR falls on average for bottom three income quintiles for full scheme 1
- PTR falls by an average of 17% for households receiving means-tested benefits
- However, majority of workers face deteriorating work incentives due to higher tax rates
  - 70% of second earners
  - 67-74% of dual earner households
Potential limitations of microsimulation approach

• Behavioural change
  • Labour supply response highly ambiguous
  • IFS (2017) on uncertainty of taxpayer response
• Other funding options than personal income taxes
• No account for strengths of basic income in relation to
  • Precarious / fluctuating employment patterns
  • Stigma and other psychological effects of conditionality
  • Non-take-up
Conclusions

- Dilemma: full schemes that are affordable are inadequate, those that are adequate are unaffordable
  - Affordable = sustainable financing arrangements
  - High tax rates = political challenge and possible contractions in labour supply = unsustainable?
- Labour market effects of basic income are unclear
  - Generalised effects of higher tax rates against improvement of work incentives for lower income households and benefit recipients
- Partial schemes are likely to fare better but do not carry same advantages: simplicity, enhanced work incentives, freedom from conditionality, etc.
- Three-way trade-off between meeting need, controlling cost, and retaining advantages of universalism
More details:

• **The Fiscal and Distributional Implications of Alternative Universal Basic Income Schemes in the UK**

• **Exploring the Distributional and Work Incentive Effects of Plausible Illustrative Basic Income Schemes**

• **IPR Policy Brief: Assessing the Case for a Universal Basic Income in the UK**