

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

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

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)

Work incentive effects

- Participation tax rate is a static measures 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](#)