Basic Income for All: From Desirability to Feasibility

Stewart Lansley and Howard Reed

A publication by Compass

Published Janurary 2019 by Compass
By Stewart Lansley and Howard Reed
Designed by Work till Late

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United Kingdom

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We are founded on the belief that no single issue, organisation or political party can make a Good Society a reality by themselves so we have to work together to make it happen. Compass is a place where people come together to create the visions, alliances and actions to be the change we wish to see in the world.

Supported by:

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About Compass and this project

Compass is the pressure group for a good society, a world that is much more equal, sustainable and democratic. We build alliances of ideas, parties and movements to help make systemic political change happen. One strategic focus[1] is on policy ideas that are rooted in real needs now but which have transformative potential. Introducing a basic income is one such policy and speaks to every element of the good society we want to create by providing more freedom, independence, time security and sense of citizenship. This is our second report on basic income and shows how a desirable and feasible scheme could be implemented. The next stage is to build a national coalition in support of a basic income.

Acknowledgements

We are grateful to the Friends Provident Foundation for providing funding for the simulations in this paper and to Compass for commissioning the study. We would like to thank the many friends and colleagues who have contributed to the report. A special thanks to Neal Lawson and colleagues at Compass for support and encouragement throughout. We are grateful to those who attended a Compass seminar where we presented a first set of results. Those who helped in one or more of these ways were Helen Flynn, Joel Flynn, Frances Foley, Barb Jacobson, Luke Martinelli, Anthony Painter, Peter Sloman, Alfie Stirling, Iva Tasseva, Malcolm Torry and Remco van der Stoep. The comments and feedback have been extremely useful; we apologise where we have not been able to embrace the full implications of all the many and detailed suggestions.

As ever, any errors and omissions are the fault of the authors.

Stewart Lansley and Howard Reed
December 2018

Foreword

The UK visit of the UN Rapporteur on Extreme Poverty and Human Rights in November, 2018 shone an excoriating and much needed light on the damage done to the UK social protection system by years of public spending cutbacks targeted at people living in poverty.[2] Moreover, social security cuts estimated at over £35bn a year by the early 2020s have been aggravated by 'welfare reforms' designed to change behaviour. The latter include an intensified and more extensive sanctions regime, described recently by the House of Commons Work and Pensions Committee as 'arbitrarily punitive'[3]; its Chair, Frank Field MP, was quoted as saying 'we have heard stories of terrible and unnecessary hardship...it just seems pointlessly cruel.'[4]

Growing numbers are suffering as the result of the introduction of universal credit, designed to mimic work by paying benefit monthly in arrears. While much has been made of the advantages of combining a range of existing benefits into a single benefit, the downside is that, if anything goes wrong such as a delay in payment, families can be left with nothing other than child benefit (and a repayable advance payment is no answer when it means subsequent payments are reduced until it is repaid). Increasingly it is being recognised that the problems with universal credit are not simply teething problems but reflect design flaws – notably monthly assessment and payment – which are undermining the security social security is supposed to provide.

Less visible has been the shredding of the ultimate safety net provided by local authority welfare assistance schemes, which replaced the crisis support previously available through the national social fund. Since discretionary responsibility and inadequate non-ring-fenced funds were devolved to local authorities in 2013, the latest evidence shows at least 28 local authorities have closed their schemes completely and many more have cut their budgets drastically.[5] The government have abdicated all responsibility – an example of the institutional indifference shown towards the impact of their policies. Shockingly words such as 'hunger' and 'destitution' are now part of the vocabulary used to describe what is happening; their most visible expression are the growing incidence of rough sleeping and reliance on food banks.

Alongside the growing evidence of the harm and insecurity created by social protection policies, new analysis by the Resolution Foundation reveals the insecurity experienced at the lower end of the labour market due to significant earnings volatility. Focus group participants 'spoke of how the challenges of living with low pay are exacerbated by pay volatility, leading to increased anxiety and stress as well as more debt.'[6] What this all adds up to is growing economic insecurity and, as Michael Orton detailed in an earlier Compass publication, this is not confined to people living in poverty.[7] Arguably the promise of greater security is a political message that could appeal across income groups.

It is in this context of growing hardship and insecurity that this report by Stewart Lansley and Howard Reed is so important. It takes forward the debate about basic income by modelling both a shorter and longer-term scheme. The shorter-term scheme (model 1) provides for a partial basic income (PBI) designed to be implemented in a single parliament. I hope it will be taken seriously by the Labour Party and others. Rather than a limited pilot scheme, which is difficult in the context of a (rightly) centralised social security system and which experience suggests can all too easily lead nowhere, this would in effect provide a national pilot scheme that could inform debate as to whether to go further towards a fuller basic income scheme, one example of which is provided in model 2. This also introduces the innovative idea of a citizens' wealth fund.

In an important intervention Karen Buck MP and Declan Gaffney recently argued that 'a partial basic income arguably has a role to play in creative reform of taxes and benefits' as a complement to rather than replacement of the existing social security system.[8] They identified a number of possible advantages including addressing gender imbalances and income volatility and concluded that 'there is an idea worth exploring here, even if the initial benefit is, in itself, pitched well below subsistence level'. They also rightly identified some questions that need answering in terms of costs, technical and administrative challenges and the balance of winners and losers. They ended with a challenge: 'we need to move the debate on to practicalities'. And this is exactly what this Compass report does.

Like Buck and Gaffney, it identifies the conversion of personal tax allowances into a cash payment as a key move. Andrew Harrop, General Secretary of the Fabian Society, has described the current policy of raising the real value of personal tax allowances as 'regressive universalism'.[9] Just how regressive was underlined by the recent Budget, which squandered billions by raising them yet further while retaining the working-age and children's benefits freeze. Raising personal tax allowances does nothing for those whose incomes are too low to pay tax and is of limited help to taxpayers on universal credit, which is based on net income; it favours the better off over the worse off and men over women.[10] The Compass report shows how converting tax allowances into a PBI, combined with other tax reforms, creates a genuinely progressive form of universalism.

As well as reducing poverty and inequality the authors' proposed PBI scheme would reduce reliance on means-tested benefits. Of course, the most effective way to do that is to take the whole of the PBI into account when calculating entitlement to means-tested benefits; this is what Buck and Gaffney appear to propose. However, that means many on the lowest incomes would enjoy no or a limited increase in income as a result. This report proposes a compromise: to disregard the first £25 of the PBI for means-testing purposes so that those claiming such benefits would receive an income boost. The right balance between reducing reliance on means-testing and boosting incomes is a perennial dilemma and is something that we might want to debate. There are other important questions for the longer term such as the meeting of disability and housing costs. But one advantage of a partial basic income is that these continue to be met under the existing system. PBI provides a genuine safety net under the safety net and, provided it is as straightforward to administer as proponents claim, there is no reason why it should add to the complexity of the overall system once it is in place.

There will still be many who do not believe that basic income is desirable either on philosophical or more pragmatic grounds.[11] And that debate will rightly continue. But for those who do support the principles of a basic income and those who have an open mind but are yet to be persuaded of its feasibility, Stewart and Howard show how the desirable can be made feasible through a progressive PBI, which provides a modicum of basic economic security in an insecure world.

Ruth Lister

Ruth Lister is the chair of the Compass Management Committee, a Labour peer and Emeritus professor of Social Policy at Loughborough University,

Executive Summary

This paper examines some options for the introduction of a basic income scheme in the UK. It seeks to answer the central practical criticism of introducing a basic income – that the payment levels are either too small to make much difference or too generous to be affordable. The models presented challenge that central critique by showing how a meaningful basic income of, for example, over £10,000 per year could be paid to a family of four. Sums at this level, paid without condition, would significantly improve the living standards and life chances of millions of people and – as we show – are affordable.

The analysis has been commissioned by Compass. It has been funded by the Friends Provident Foundation and uses the Landman Economics tax–benefit model (see Appendix A). It develops the partial model set out in the first 2016 Compass Report: *Universal Basic Income: an idea whose time has come*.[12]

TWO MODELS

We examine two complementary steps to establishing a basic income system.

Model 1, the fast track route

Under this model the government would pay £60 per week to adults aged 18–64, £40 per week to mothers for each of their children (aged 0–17), and £175 to adults aged 65+. Eligibility would be based on residency. Child benefit and the state pension would be abolished, but other parts of the existing social security system, including means-tested benefits, would be retained. These sums would be guaranteed, with no questions asked, irrespective of work status.

This model would involve a number of integrated changes to the tax and benefit system. Each of these elements could either be phased in gradually over time, or be implemented in full at one go. It could therefore be implemented during the lifetime of a single parliament.

The model would have a net cost of £28bn, roughly the equivalent of the total of the cuts to benefits since 2010. It would therefore take us back to the level of spending on social security in 2010, but with a much more progressive system in place.

Model 2, the slow track route

This model would boost the long-term funding for a basic income scheme by creating a targeted citizens' wealth fund.[13] This would take time to build, but once established the fund would become a permanent and growing source of finance. It could gradually improve basic income payment levels over time, ensure the durability of a basic income scheme, and within a generation help to deliver a more effective anti-poverty social security system. It could be created through a mix of funding: long-term borrowing, the allocation of some existing revenue-generating public sector assets, and modest levies on the UK's massive pool of corporate and private wealth.

THE BENEFITS OF INTRODUCING A BASIC INCOME

The illustrations below show that, contrary to the claims of some critics, a basic income even at modest levels would be highly progressive, reduce poverty and inequality, and cut dependency on means testing. The gains would be greatest among the poorest. The cost would be met by some increases in taxation concentrated among higher income groups. The schemes outlined would update the British system of social security for a 21st century economy and society. For the first time there would be a guaranteed income floor (initially modest, but not insignificant) below which no individual would fall, and a robust income base that would gradually rise over time.

Crucially, the proposals would give all households a greater degree of certainty about their future income and thereby help tackle the growing economic and social insecurity of the UK's economic model. These reforms would provide a new source of personal empowerment, providing all citizens with a greater degree of choice over work decisions leading ultimately to a better and more productive balance between work, education, training, leisure and caring. They offer a significant modification of the existing system of social security – creating one more suited to the new risks of insecurity, precarity and work-based poverty of the 21st century – but not wholesale 'big-bang' replacement.

The report sets out to help answer the claim that advocates of basic income have 'far more enthusiasm for conjuring up the potential advantages of basic income than for suggesting how it could work in practice'. In doing so, it attempts to unpick some of the key elements of how it might work.[14]

'A basic income would fulfil a long held, but never implemented, goal – the introduction of an explicit income floor, below which no household would fall. Under the two-stage approach outlined, this floor would gradually rise over time'

Background to the basic income debate and this report

A basic income is a tax-free, unconditional and non-contributory basic weekly income paid to every individual as of right, irrespective of how much they earn or their work status. Aimed at guaranteeing a no-strings-attached minimum, secure income for all, whatever their circumstances, a basic income would supplement (and eventually replace at least part of) the existing national social security system and involve a profound revolution in the way income support is delivered. Eligibility would be based on residency. Payments would go to UK residents, with legal migrants entitled after an agreed minimum number of years of residence.

There is a growing interest in the idea of a basic income in the UK, and across the globe. An important driver has been the emergence of more insecure and fragile economies and societies, bringing growing uncertainty about work, livelihoods and living standards. This fragility is the product of disruptive and ongoing social and economic change, from de-industrialisation to austerity, all contributing to the arrival – in the UK and many other countries – of stagnant living standards and a sharp rise in in-work poverty. The UK's labour market is characterised by rising numbers trapped in low-paid, low-value, unsatisfying and insecure jobs, with few if any prospects of improvement. A recent study has found that pay volatility is now 'the norm, not the exception', and is particularly acute among the lowest paid.[15]

There is also the much-debated question of the impact of the 'new machine age'. Although the likely impact of the robotic revolution – from 3D printing and algorithms to driverless cars and machine-driven journalism – is inevitably uncertain, further and prolonged job upheaval seems inevitable with the risk of an ever more polarised workforce as, in particular, middle-paid jobs are displaced by poorly paid ones. But our proposals aren't based on unknowable job loss predictions but firmly grounded in the inadequacies of the current work and welfare models. The reforms proposed are desirability whatever the future impact of the new technology.

It is no surprise that there is growing impatience with the imperfections of existing systems of social protection and the lack of action against the built-in inequality of the still dominant model of corporate capitalism. The UK's social security system, originally designed for a very different world – of full employment, jobs for life, buoyant wages and secure work – is ill-suited to today's economic model of extensive low pay, insecure and often intermittent work, increasingly with no guaranteed hours or pay. The system has become over-reliant on means testing, light years away from the model of universalism originally advocated by Sir William Beveridge, and comes with excessive conditionality and sanctioning.[16] With governments exercising greater and greater control over the lives of claimants, the system has become much more complex, punitive and intrusive, and stigmatising to the weakest and most vulnerable in our society. In short it hurts and humiliates the very people who most need the support of society. Today's system fails time and again to meet its primary aim: to act as a safety net against poverty.

In part because of growing fragility, and the momentum from the trials now being conducted in a number of nations, the debate in the UK has begun to spread beyond a narrow range of academics and think tanks, and from the question of desirability to feasibility. The idea is backed by the Greens. The Scottish government is examining detailed proposals for a Scottish trial in four cities. Several English cities, including Liverpool, are considering a local pilot, while Labour's shadow chancellor, John McDonnell, is examining the possibility of including a trial in Labour's next election manifesto and has commissioned a group of experts to report to him on the idea. The principle of introducing a basic income has support from organisations as diverse as the pro-market think-tank, the Adam Smith Institute and the independent Royal Society of Arts.

By cushioning citizens from today's great winds of change, a basic income would be an effective tool for tackling growing economic risk. With its built-in income guarantee, it would bring a more robust safety net in a much more precarious and fast-changing work environment and would lower the risk of poverty among those in work. It would boost the universal element of income support, reduce dependency on means testing, and end much of the existing system of policing and sanctioning.[17] **A basic income would fulfil a long held, but never implemented, goal – the introduction of an explicit income floor, below which no household would fall. Under the two-stage approach outlined, this floor would gradually rise over time**.

A basic income also has the potential to do much more than help fix a broken system of social protection and a fragile labour market. One of its galvanising forces has been its potential to offer a new 'charter for choice'. Central to a basic income is that it is non-prescriptive: it would offer greater personal autonomy and flexibility between work, leisure (not to be confused with idleness), education and caring. Some might choose to work less or take longer breaks between jobs. A basic income would help encourage entrepreneurialism and risk-taking, with some incentivised to start businesses. Some might take time to retrain, while others might devote more time to leisure, personal care or community support. Such a boost to choice has the potential to produce more social value, if currently unrecognised, than some existing paid work.

By providing an independent, if modest, income, a basic income would provide financial support for the mass of unpaid work – from childcare to voluntary help – disproportionately undertaken by women. These are progressive changes with transformative potential. Even critics acknowledge the potentially profound nature of some of these changes.

Yet despite these merits the idea remains controversial and divides opinion among social commentators and progressives. There is agreement that the current social security system fails to provide an adequate safety net, and is poorly suited to deal with present economic and social trends, but much less agreement as to whether introducing a basic income scheme is *feasible* and *affordable*, and the right way forward.

The feasibility of implementing a basic income scheme depends ultimately on its plumbing – the way it would work in practice. There are many visions among supporters of a basic income, offering different degrees of radicalism and feasibility, and different primary goals.

The idea has gained support from both right and left, though they offer very different visions. Advocates from the right mostly favour a basic income as an opportunity to sweep away other forms of social protection and parts of the welfare state. Some of the support coming from Silicon Valley enthusiasts, many of whom are driving the new gig economy and stand to gain substantially from the ongoing technological revolution, see the idea as a substitute for parts of the existing welfare structure.

Progressive advocates, on the other hand, view such a scheme as a way of securing a robust income floor, of tackling poverty and a means of promoting equal citizenship. They see it as a profoundly democratic and egalitarian concept, based on a recognition that all citizens have the right to some minimal claim on national income. They are also clear that a basic income must be seen as a supplement to the wider public provision of services and not as a substitute. These contrasting left and right positions are incompatible and it is inconceivable that a scheme could be devised that satisfied both sides.

There are also differences between progressive supporters, broadly on how radical a scheme might be, its ultimate role, and how much of the existing system it would replace. At the most radical end of the options is a utopian, 'big-bang' approach, which would largely tear up the existing system and replace it with a generous system of payments at a level sufficient to provide a basic living standard; this is embraced most fully by a small group advocating a basic income as an essential element of a utopian 'post-capitalist', 'post-work' world.[19] This approach would sweep away the present system, including most means tests, and enable citizens to use their basic income to buy more leisure.

Others propose introducing a more pragmatic, if still ambitious, version of basic income, with a more modest level of payment, at least initially, and involving a less comprehensive reform of the existing system of social security. This camp, which includes the current authors, proposes basic income rates sufficient to offer families and individuals enhanced levels of security and choice through a model grafted onto the existing system, but moving gradually over time to a scheme with higher payments.[20] Such a partial approach (which pays a meaningful sum to individuals, if not enough to live on) is less radical than the 'big-bang' approach, and would leave much of the existing system in place.

In our first report for Compass published in 2016 – *Universal Basic Income: an idea whose time has come?* – we attempted to answer some of the questions of feasibility and impact, by testing these two alternative approaches: a full, generous basic income scheme that swept away much of the existing system in one go, and a partial scheme with more modest payments sitting alongside the existing social security system.[21] This earlier study found that a full 'big-bang' scheme would be either too expensive to implement or create too many losers, This is because the current benefit system, partly because of its reliance on means testing, is able to deliver large sums to some targeted groups. These problems suggest that a full and generous scheme structured in these ways is not feasible in the current circumstances.

However, the study also found that a partial scheme, one that still provided a guaranteed income, albeit at a moderate level, would be perfectly feasible. The scheme presented – while not a silver bullet – would be highly progressive, cut poverty and inequality and strengthen the universal element of the current benefit system, thus reducing the reliance on means testing. These are all highly positive outcomes.

However, the report left open a number of questions of implementation, which we try to address in this second report. The central issue of this study is whether a basic income is feasible? Is it affordable? Who would gain and who might lose? Would it cut poverty and if so by how much? What about the level of means testing?

A feasible basic income would need to satisfy a number of criteria set out in the box to the left.

To assess feasibility, we examine two distinct and illustrative, but complementary approaches to implementation: a modest basic income that could be introduced in the short term, and a more generous scheme that would take longer to implement.

Criteria for a feasible and progressive basic income It should:
Be paid to everyone, without condition, and cannot be withdrawn
Be progressive (raise the incomes of the poorest while reducing the gap between the top and bottom) and reduce the level of poverty and inequality
Be high enough to make a material difference to people's lives, including reducing the risk of destitution
Raise the level of universality in the social security system, while reducing reliance on means testing
Be affordable
Minimise losses for low-income households (some losses to some households is inevitable with any system change)
Minimise the amount of disruption involved in moving to a new system of income support (by retaining much of the existing system at least initially and grafting basic income payments onto it)
Enjoy broad public support (essential for political feasibility) based around an extensive national debate and public education.

Model 1: A partial scheme implemented in a single parliament

In this section, we examine a partial basic income scheme – Model 1 – based on a series of starter rates of payment. The projections of the impact are based on a static, first-round analysis, assuming no behavioural effects in response to the introduction of basic income and the tax changes. In reality there would be behavioural effects, which are likely to be significant and highly progressive in the long run. We are not however able to test their wider impact in this report.

The scheme would pay British citizens weekly at the following rates: £60 for adults, £40 for children (given to their mother) and £175 for adults aged 65 and over. These are illustrative rates, and an option would be to pay differential rates for adults, with a slightly lower rate for young adults up the age of 24. Model 2 (described in Chapter 3) would raise these levels, as shown in Table 1.

Introducing weekly payment rates at the basic levels of Model 1 would make a real difference to the growing numbers of working-age people on low incomes, often living a precarious existence on the margins of work, including those who have not benefited from the recent rises in the personal tax allowance. The payments would be a source of income security for the growing number with no, low or fluctuating earnings, those entitled to social security but who miss or have opted out of the benefit system, the army of carers and volunteers (mostly women) who currently receive no benefits at all, and the poorest pensioners – especially those who do not claim the pensioner credit to which they are entitled.

Table 1: Annual basic income rates by household type for models 1 and 2

	Model 1: weekly rate	Model 1: annual rate	Model 2: weekly rate	Model 2: annual rate
A child	£40	£2,080	£50	£2,600
Single adult under 65	£60	£3,120	£80	£4,160
65 and over	£175	£9,100	£180	£9,360
Couple under 65	£120	£6,240	£160	£8,320
Couple with one child	£160	£8,320	£210	£10,920
Couple with two children	£200	£10,400	£260	£13,520

Table 2 outlines the key elements of Model 1. The model could be implemented within the lifetime of a single parliament in one go, phased in possibly over a longer period, or introduced at lower initial rates (see 'Phasing', below).

Table 2: Elements of a starter rate partial basic income, Model 1

Weekly payment levels (tax free)	• adult aged 18–64: £60 • child aged 0–17: £40 • adults 65+: £175
Changes to existing benefit system	• The first £25 per week of basic income is disregarded for means-testing purposes – so even those receiving means-tested benefits get an income boost. The payment above this disregard is counted as income for the calculation of other benefits. The effect of the disregard is to raise lower net incomes by more than without it, but would lead to less of a reduction (and financial saving) from means-tested benefits. If the whole, or part of the payment was counted as income for means-tested benefits, the net cost would fall and the income gains at the bottom would be lower. • Child benefit and existing state pension are abolished. • The existing state pension of £164.35 per week is converted into an unconditional flat rate 'citizens' pension' of £175 per week. • Current national insurance contributions (NICs) and the new pension scheme are abolished; eligibility for the state pension would thus become automatic for citizens above the state pension age, rather than conditional on an adequate contributions record as at present, thus raising the income of those with incomplete contribution records, mostly women, and the group most vulnerable to pensioner poverty.
Changes to tax system	• Income tax personal allowance is abolished. • Current higher rate threshold is adjusted upwards so it takes effect at the same existing level of gross income. • A new income tax rate of 15p is introduced for the first £11,850 of taxable income. This is to minimise the number of low income losers. • Existing income tax rates are raised by 3p taking them in England, Wales and Northern Ireland to 23p, 43p and 48p. • The employee NICs primary threshold is abolished (so NICs are payable on all earnings) and the rate of employee NICs is set at 12% for the whole range of earnings (increasing NICs from 2% to 12% above the upper earnings limit). NICs for the self-employed are also equalised with employees at 12% (currently 9%) as Jobseekers' Allowance is less important in this system because of the increased working-age basic income rate.
Creation of Citizens' wealth fund	• A citizens' wealth fund is established; this will build over time and start paying out in year 20 under the illustrative Model 2. See Chapter 3.
Implementation	• The scheme could be implemented in one go or phased in over time in steps.

Model 1 involves two broad sets of changes to the existing tax and benefit system. First, there is a guaranteed set of payments aimed at providing an income floor. Secondly, a series of tax adjustments raises the additional income needed to pay for the weekly basic income while making the tax system more progressive. The tax changes involve the abolition of the personal allowance, a new tax rate at the bottom end of the income band of 15p, a rise in existing tax rates of 3p in the pound, and a change in the current system of NICs. The 3p rise in the tax rate ensures that the benefit is concentrated among the bottom half of the distribution.

THE IMPACT OF MODEL 1

The impact on poverty, inequality and means testing of introducing Model 1 is shown in Table 3. Model 1 produces a more progressive and integrated tax–benefit system compared with the one currently in place, with reductions in poverty and inequality, a strengthening of universalism, and more means testing shifted to the tax system. Most of the existing benefit system would remain intact.

These are the main changes if Model 1 is introduced (compared with base):

- Child poverty (after housing costs) falls from 28.7% to 18.1% (by more than a third).
- Working-age poverty falls by just over a fifth to 15.7%.
- Pensioner poverty falls by almost a third to 11.3%.
- The Gini coefficient (a summary measure of inequality) falls from 0.377 to 0.337.
- Overall 75% of households gain and 25% lose (7% lose more than 5%). The gains are concentrated among the poorest households and losses (from the withdrawal of personal allowance and higher marginal tax rates) among higher income groups. Middle income households in deciles 4–8 gain small amounts.
- The scheme is very close to a no-loser scheme for the poorest half of the distribution (see figures 2 and 3). There are a tiny number of losers among the bottom two deciles: 0.8% and 3.1% respectively lose something while 0.4% and 1.7% lose more than 5%.
- There are falls in the proportion of lower income households dependent on means testing.
- The 15p tax rate has been introduced to reduce the number of losers. Without it there are substantially more losers.

The introduction of Model 1 therefore satisfies the criteria set out earlier.

Table 3: The impact of introducing Model 1: winners and losers, changes in poverty, inequality and means-testing levels

Weekly rate	Children, 0–17 Adults, 18–64 Adults, 65+	£40 £60 £175
Decile 1 (poorest)	Individuals gaining Individuals losing Individuals losing more than 5%	99.2% 0.8% 0.4%
Decile 2	Individuals gaining Individuals losing Individuals losing more than 5%	96.9% 3.1% 1.7%
Impact on poverty compared with base year*	Child poverty (base = 28.7%) Working-age adult poverty (base = 20.2%) Pensioner poverty (base = 16.2%)	18.1% 15.7% 11.3%
Fall in inequality (Gini coefficient) from base of 0.377**		Falls to 0.337
Proportion of households claiming means-tested benefits	decile 1 (base = 76.1%) decile 2 (base = 84.3%)	69.9% 73.8%

* Poverty is relative poverty (measured as the proportion of individuals in households falling below 60% of median net household income) after housing costs.

** The Gini coefficient is a summary measure of inequality (where 0 is complete equality and 1 complete inequality). This is the Gini for household net income (after housing costs).

Figure 1 shows the distributional impact of introducing Model 1. Figure 2 shows how many individuals would lose some income and Figure 3 shows how many would lose more than 5% of their income if this model was introduced.

Figure 1: The distributional impact of introducing Model 1 (percentage of net income per decile)

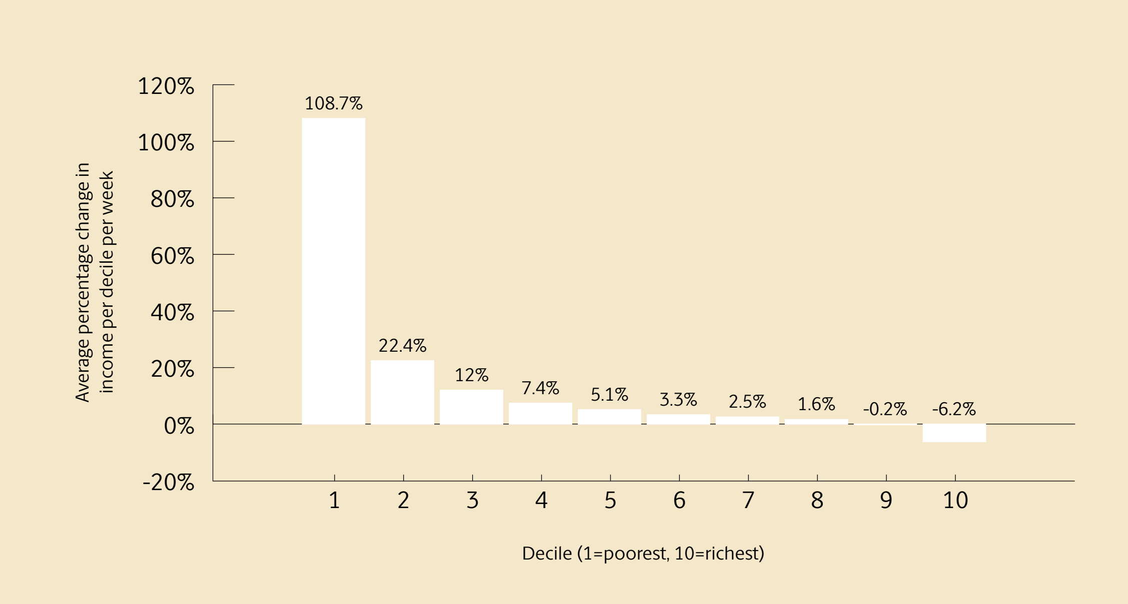


Figure 2: The proportion of individuals losing some income if Model 1 is introduced, by decile band

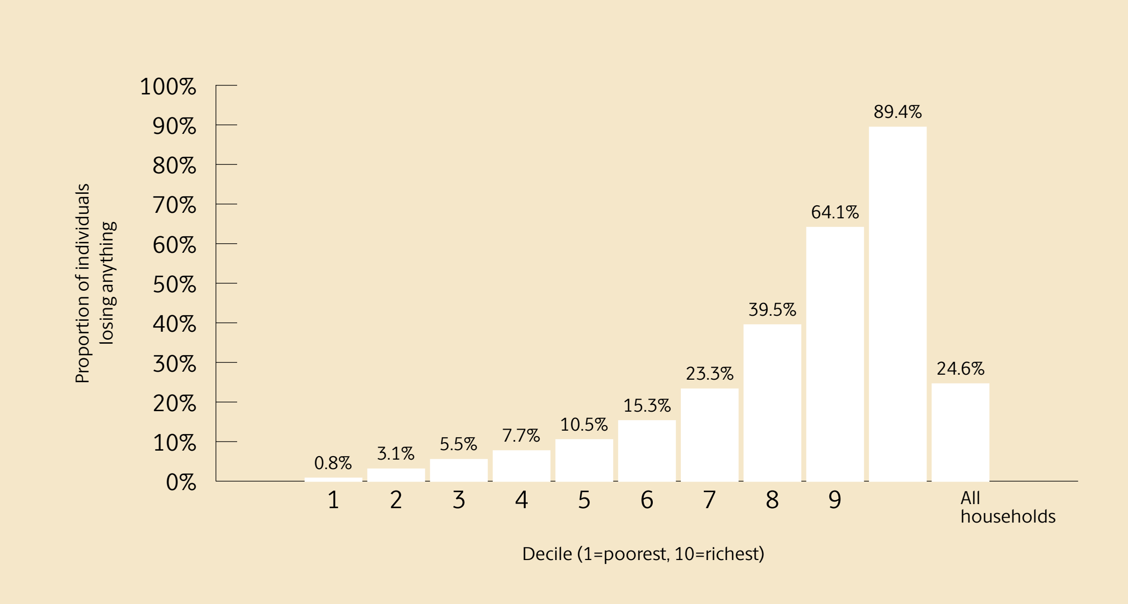
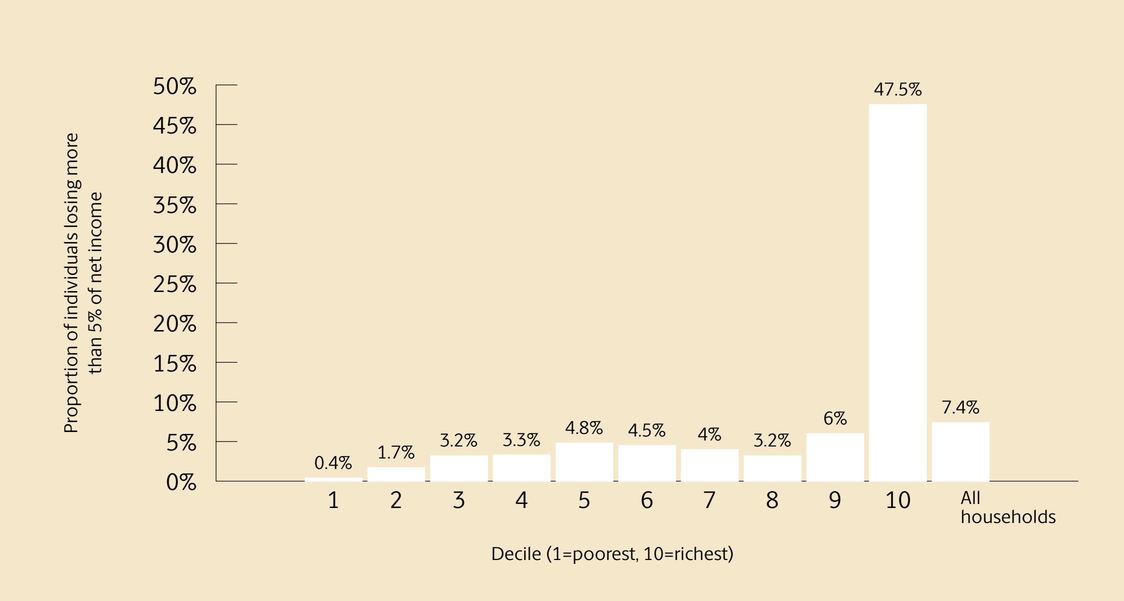


Figure 3: The proportion of individuals losing more than 5% in income if Model 1 is introduced, by decile band

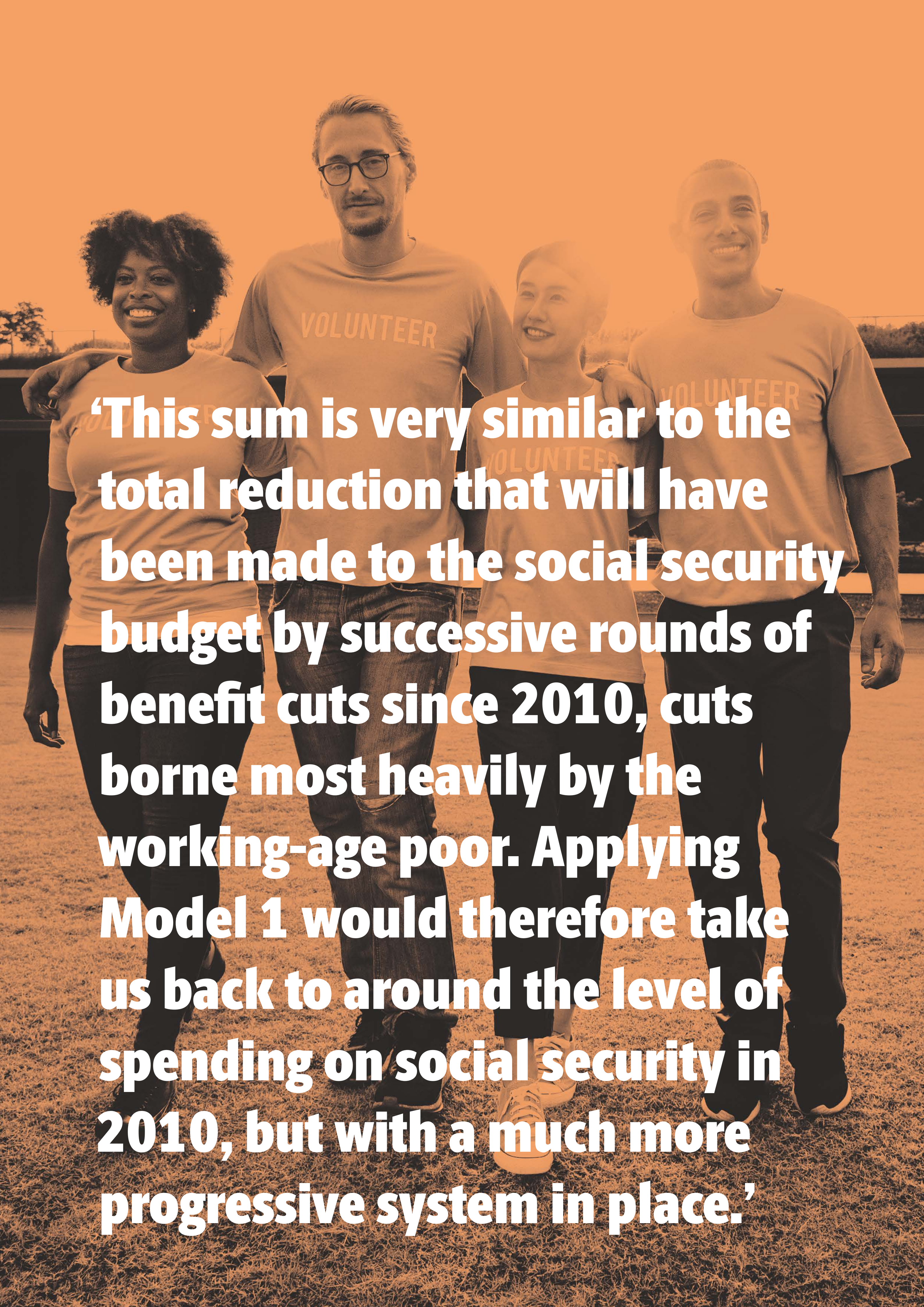


THE COST OF INTRODUCING MODEL 1

The costs of implementing Model 1 are set out in Table 4. The *gross* cost (before introducing the 15p lower rate of income tax) is some £262.8bn. There is an additional cost of £32bn to adjust the higher rate tax threshold upwards (this is to compensate standard rate taxpayers who would otherwise lose from an effective fall in the higher rate tax threshold and be drawn into paying the higher tax rate much more quickly). This gives a total cost of £300.2bn. This cost is partially met by savings from the abolition of Child Benefit and the State Retirement Pension, along with savings in the payment of meant-tested benefits, giving a net cost of £182bn. This remaining cost is met in full by the abolition of the personal tax allowance, raising existing income tax rates by 3p in the pound and the proposed changes in NICs. The final net cost is zero.

Table 4 The costs of implementing Model 1

		Gross cost (£bn)	Savings (£bn)	Tax rises (£bn)
Payments to all		£268.2		
Tax threshold adjustments		£32.0		
Total gross cost		**£300.2**		
Benefit savings	Abolition of child benefit		£11.2	
	Abolition of state pension		£90	
	Reduction in means-tested benefits		£17.0	
Total savings			**£118.2**	
Tax changes	Abolition of personal allowance			£101.0
	National insurance rises			£48.0
	Income tax rate increases			£33.0
Total tax rises				**£182.0**
Net cost				**£0.0**



‘This sum is very similar to the total reduction that will have been made to the social security budget by successive rounds of benefit cuts since 2010, cuts borne most heavily by the working-age poor. Applying Model 1 would therefore take us back to around the level of spending on social security in 2010, but with a much more progressive system in place.’

Model 1 (before the introduction of the 15p lower rate of income tax) is therefore exactly cost neutral with no change in the balance of the public finances and no net increase in taxation: the cost of the extra benefits would be exactly offset by the extra revenue from the abolition of the personal allowance and the changes in tax rates and NICs. The scheme essentially involves a re-allocation of existing tax–benefit resources in favour of low-income groups. (For details of the costings for pensioners see Appendix B.)

To minimise the number of losers among lower income households, we have introduced a 15% band of income tax on the first £11,850 of gross income (corresponding to the value of the personal allowance in 2018/19 before its abolition). This costs around an additional £28bn, roughly equivalent to 1.4% of gross domestic product. **This sum is very similar to the total reduction that will have been made to the social security budget by successive rounds of benefit cuts since 2010, cuts borne most heavily by the working-age poor. Applying Model 1 would therefore take us back to around the level of spending on social security in 2010, but with a much more progressive system in place**.

One option for raising the £28bn would be by a further rise in the basic and higher rate of income tax. Other possible options for meeting this £28bn include:

- Reversing the freeze in diesel and petrol excise duties since 2010 (raising £9bn).
- Raising the rate of corporation tax (a rise of 1p raises £2.6–2.8bn); reversing the cut in the rate from 28% in 2010 to 18% by 2020 would raise £26–28bn, the full sum required.[22]
- Reducing the number and cost of tax reliefs; the Office of Tax Simplification has identified 1,156 such reliefs (nearly four times the annual listing of 400 by the UK tax authority).[23] These cost the exchequer around £400bn annually (though a large chunk of this sum includes personal tax allowances and VAT exemptions). Tax relief on pension contributions, for example, costs £41bn a year, mostly to the benefit of higher income groups, while £34bn is the cost of reliefs from corporation tax and capital gains tax for business assets.[24] Restricting pension relief to the basic rate of tax would save £10bn a year. 'Entrepreneur's relief' – a large capital gains tax break for company owner-managers and known to be poorly targeted – has cost £22bn over the last decade and its abolition would save £2.7bn a year.[25]
- A phased reduction in financial support to home owners and private landlords. The Chartered Institute of Housing has estimated that subsidies and grants to private owners cost around £8bn a year, with a main impact on house prices and much of the gain accruing to property developers.[26]
- Extending NICs to those over 65, a change advocated by the Inter-Generational Foundation as a way of improving inter-generational fairness.[27]
- Raising the revenue yield from the new digital services tax on big technology companies such as Facebook and Google, introduced in the 2018 budget and set to raise £400m pa from 2020.[28v]
- Introducing higher rates on existing eco-taxes.[29]

Table 5 provides a summary of these options.

Table 5: Revenue options to meet the cost of introducing a 15% band of income tax on the first £11,850 of gross income (£28bn)

	Net annual revenue raised
Increase basic rate of income tax by 3p	£22bn
Increase higher rates of income tax by 3p	£5bn
Reverse freeze in diesel and petrol excise duties since 2010	£9bn
Raise corporation tax by 1p	£2.6–2.8bn
Restrict tax relief on pension contributions to the basic rate of income tax	£10bn
Extend NICs to those over 65	£2bn

Some of these alternative sources of finance could also be used to help pay for the net cost of Model 1 after benefit savings and the abolition of the personal tax allowance. This would reduce the cost to be met by the changes in income tax rates and national insurance contributions set out in table 4.

PHASING

Model 1 could be implemented in one go during the course of a Parliament. Alternatively, different elements could be phased in over several years (possibly over more than one Parliament). There are three main options for phasing.

Converting tax-free personal allowances into cash-free payments

A key element of the partial scheme is the conversion of the existing tax-free personal allowance for income tax into a tax-free cash payment paid to all individuals. The personal allowance currently costs £101bn[30] but is of no benefit to those with earnings below the tax threshold. This move alone would finance a basic income of £25 per week for all working-age adults and children, together with the conversion of the existing flat rate state pension of £164.35 per week into an unconditional 'citizens' pension' at the same weekly rate.[31]

This step would be highly progressive in its own right: it would introduce a firm income floor, albeit modest, establish the principle of a guaranteed minimum income as of right, and reduce poverty and inequality. It would involve no additional costs to the exchequer. The gross cost is met in full by abolishing the tax personal allowance, and the rise in tax revenue that results. The cash payment of £25 per week would bring a guaranteed annual income of £1,300 for a single person and £5,200 for a family of four, while the citizens' pension would reduce dependency on pensioner credit. There is a strong case for taking such a step and there is already some support, including from the Fabian Society, for such a move.[32]

The introduction of child benefit in 1978 (which abolished child tax allowances and family allowances and converted them into a tax-free payment for all children) is a powerful precedent for converting tax allowances into flat rate cash payments. This reform – highly controversial at the time and initially opposed and delayed by the Labour cabinet[33] – has proved one of the most important anti-poverty measures of the last 40 years.

Such a starting payment on route to providing a more generous scheme would still be a significant boost to the rising number of people in the UK with minimal levels of income. It would have a progressive impact across the distribution, though steps would be needed to reduce the losses among some lower income households. The details of how it would work and the wider impact are shown in Appendix C.

An incremental introduction

A scheme could be implemented at lower rates of initial payments and thus at lower net cost. Alternatively, payments could be phased in for different households over time, for example, by starting with young adults aged 18–24 – an especially disadvantaged group – at a key point in their life. Paying all young adults £60 per week would cost around £7.5bn per annum, requiring an increase in the income tax rate of less than 1p.

Paying the child rate of £40 per week (an increase of £19.30 for the first child and £26.30 for subsequent children compared with current rates of child benefit) would cost £11bn pa and would require an increase in the income tax rate of just over 1p.

A pilot scheme

There is a case for testing the viability and impact of a basic income before wider implementation. A pilot scheme, provided it tested a real model, would help to stimulate public debate and iron out any administrative issues. However, such a trial would require time to organise and further time to evaluate its impact, thus slowing down the implementation of a partial scheme. One possibility would be to proceed with some phasing in of a partial basic income in parallel with a trial. Such phasing might include uprating child benefit, and or the introduction of a young people's payment and the introduction of a citizens' wealth fund at the same time as the pilot.

Model 2: how a citizens' wealth fund could boost the basic income rates

Model 2 would boost the Model 1 weekly payment rates to £50 for children, £80 for adults and £180 for adults of 65+. Table 1 shows that couples under 65 would receive an annual guaranteed, no questions asked, payment of £6,240 and families of four (two adults and two children) of £13,520 a year.

These additions would cost an extra £26bn a year. We propose that this cost should be paid for from a dedicated citizens' wealth fund.[34] The fund could be created at the beginning of the process of implementation, and allowed to grow over time to be large enough to pay out this extra sum. This would ensure that the cost is met primarily from tapping wealth rather than income.

Below we present an illustrative citizen's wealth fund that would begin to pay out after 20 years. (The citizens' wealth fund could be established before implementing Model 1, in which case the boost to rates would take place earlier than 20 years.)

A basic income-linked citizens' wealth fund

The creation of a citizens' wealth fund would generate an independent source of funding outside the general tax pool, linked directly to the payment of part of the cost of a basic income. Citizens' funds are a potentially powerful tool in the progressive policy armoury. They are commonly owned investment funds, managed for the long term, with the returns used explicitly for the benefit of all citizens, future as well as current. Such funds would be transparently managed and kept in trust in perpetuity for the public good.

With such a fund, all citizens would hold a direct and equal stake in economic success, with the fund automatically capturing a growing part of the gains from economic activity and distributing the gain equally to all. Citizens' funds are therefore a way of ensuring that at least part of the benefits of some economic activity are pooled and shared among all citizens and across generations, thus providing a counterforce to growing inter-generational inequities.[35]

Such a fund would continue to grow over time, and be a permanent and enduring part of the economic and social infrastructure. Crucially, they would be owned directly by citizens, not the state, controlled by an independent board of guardians, with the support of a citizens' advisory council.

The idea that a share of national wealth be held in common has a long history. In 1797, the human rights campaigner Thomas Paine argued that the earth should be seen as the 'common property of the human race'. This idea can be extended to the pool of modern physical, productive and social wealth – 'gifts of society as well as nature' – that is essentially inherited from the efforts of previous generations. A citizens' wealth fund would be a way of capturing some of the gains from natural and created wealth by the greater socialisation of private capital with the returns accruing to all citizens.

The best known example of the application of these principles is the Alaskan permanent wealth fund created from part of the revenue from oil extraction. This fund has paid an equal annual dividend (of $1,000–$3,000) to all citizens since the early 1980s. Known as the 'third rail of Alaskan politics', the fund has proved hugely popular and, significantly, has helped ensure that Alaska has the lowest level of inequality of all US states.

Such an approach could have been adopted in the UK. Instead of using part of the gain from the bonanza of North Sea oil by investing for the future, British governments have instead spent the proceeds on tax cuts and current consumption. The UK has in fact missed four major opportunities to create a wealth fund from publicly owned or part-owned resources: the extraction of North Sea oil (approx. £200bn), the sale of public land (approx. £400bn), the sale of council housing (approx. £100bn) and the privatisation of state-owned enterprises (approx. £126bn). Had they set up such a fund in the 1980s using some of these sources, it would now be worth somewhere between £400bn and £1tr.[36]

Building a fund of any meaningful size today therefore requires alternative sources of financing. Possible options include the transfer of a range of existing commercial public assets and profitable state-owned enterprises – such as the Land Registry and the Crown Estate – into the fund, including publicly owned land; occasional one-off taxes (paid in shares) on windfall profits; and corporate payments for the use of personal data.

There is a compelling case that the principal source of the fund should be increased taxation on wealth, creating a package which would help make reform of wealth taxation more politically palatable for more people. How to redistribute the unearned gains from wealth accumulation will surely be one of the big political issues of the next decade. Recent months have seen growing calls for higher taxation on personal and corporate wealth from unlikely sources, including the National Institute of Economic and Social Research and the IMF.[37] There is also a powerful case for leveraging the fund by issuing a long-term bond.

The last 30 to 40 years have seen a great surge in the level of UK privately owned wealth from three times the size of the economy to six times today.[38] Much of this rise has been essentially unearned, driven mostly by asset price inflation, sometimes the product of poorly designed public economic policy. One of the main effects of the programme of quantitative easing applied after the 2008 crash to speed up recovery from recession, for example, was to boost property and share prices, while having a limited impact on correcting for deficient demand. A recent study has found that 'the post-tax windfall profit for landowners and other stakeholders as a result of land being granted planning permission was £10.7bn' for 2016/17 alone.[39] Increasingly unequally distributed and very lightly taxed compared with income, this mountain of wealth should become the key source for the creation of a UK citizens' fund.

One of the most pro-equality approaches would be to establish a fund through the dilution of existing corporate ownership. Large companies would make a modest annual share issue – say 0.5% – with the new shares paid into the fund, up to a maximum of 10% (achieved after 20 years). Such an approach would gradually socialise part of the privately owned stock of capital to be used for explicit public benefit. A variation on this model was applied in Sweden in the 1980s by creating 'wage-earner funds', a bold, decade-long social experiment to further develop their model of social democracy, though one that eventually came to an end with the election of a conservative government in the early 1990s.[40]

Creating such a fund does not offer a quick fix but a vision for a much more secure social future, paid for by a higher rate of national saving, and tapping into existing wealth pools. The fundamental concept has been gaining support. Fund managers at M&G have advocated a £100bn gilts-financed fund to pay for higher social investment, while the National Institute of Economic and Social Research has called for a fund to stabilise asset price movements.[41]

The Institute for Public Policy Research has proposed a fund aimed at paying all 25-year-old UK-born citizens a one-off capital dividend of £10,000 from 2030/31.[42]

The Royal Society of Arts (RSA) has proposed a universal basic opportunity fund, financed by £200bn worth of long-term bonds, aimed at providing every citizen under the age of 55 with a £5,000 opportunity dividend. Anthony Painter and colleagues at the RSA see this as a pathway towards a fuller basic income.[43] Guy Standing favours a 'commons fund' financed by new taxes (from ecological taxes to a frequent flyer levy) on rentier income extracted from the commercial use of 'the commons' – natural, social, civil, cultural and intellectual.[44]

A Friends Provident Foundation study has examined a number of possible models, including one that would grow sufficiently large to fund a basic income. Examples examined different *initial endowments* of up to £100bn (from the issue of a £50bn long-term bond and £50bn from the transfer of some existing public assets) combined with a range of annual injections from £25bn a year from new taxes and levies, mostly on existing institutional and private wealth holdings. Leveraging through a bond issue would not affect the public sector balance sheet as the debt would be offset by an asset of the same size. Over the long term such an investment would actually improve the state of public finances as the additional liability would be more than matched by the size of the new asset.[45]

To meet the additional annual cost (£26bn) of Model 2 would require a fund equal to £650bn (assuming a 4% annual pay-out). Building a fund of this size could be financed by an initial endowment of £100bn (from a mix of a long-term bond issue and transfer of part of the UK's public asset base, currently worth £1.7tn), and a revenue injection of £25bn a year. This is a tiny proportion of today's privately held wealth pool of £12tn (Table 6), and would involve an annual transfer of around 1.3% of the annual output of the economy.

Table 6: Wealth in the UK, 2015/16

	Amount	Percentage of total wealth
Privately owned wealth	£12tn	87%
Publicly or socially owned wealth	£1.7tn	13%
Total	£13.8tn	100%

Assuming an annual real return of 4% per annum (equivalent to the return achieved by existing sovereign wealth funds), such a fund would accumulate to be worth close to £650bn after 20 years, enough to pay out the £26bn additional annual cost of the higher basic income payments.

There are many wider merits from using a citizens' wealth fund to pay for some of the cost of a basic income. Part of the cost would be funded from capital (which is heavily undertaxed compared with income) rather than from additional taxes on labour income. Provided the fund is owned by citizens, legally protected to ensure their independence from ordinary government spending, and managed independently, it would be protected from government interference and cutbacks. As the fund grows over time, it would be able to pay for a steady rise in the income floor. Eventually, this would enable a reduction in the level of direct tax funding, thus bringing much greater income security, independent of government, to future generations.

As in Alaska, such an approach is likely to gain significant public support. **Crucially, a citizens' wealth fund would link citizens directly to the basic income system and the basic income floor that it provides, since they would own part (a growing part) of the mechanism that funds it**. If a citizens' (peoples') fund was established to pay the higher rates of Model 2, part of the basic income payment would take the form of a citizens' dividend from the returns to the fund, thus linking the payment of a basic income to the accumulation of natural and created wealth. Paid in part through a vehicle independent of the state's wider social security system also gives the basic income an additional source of public legitimacy.

Such a peoples' fund could also be the source of occasional top-up funding, through for example, windfall gains, and become a vehicle for a more direct way of tackling recessions. Several commentators have argued that a more effective and direct approach to revival during downturns should be to make direct cash payments to individuals rather than through the use of quantitative easing from 2008. This approach acted indirectly by boosting property and share values. Adair Turner, former chair of Britain's Financial Services Authority, has argued that a direct approach would put:

> *...new spending power directly in the hands of households and businesses, rather than working through the indirect transmission of higher asset prices and induced private credit expansion. ... If we had done so [in 2008], the recession would not have been so deep and we would now be further advanced in escaping the debt overhang.*[47]

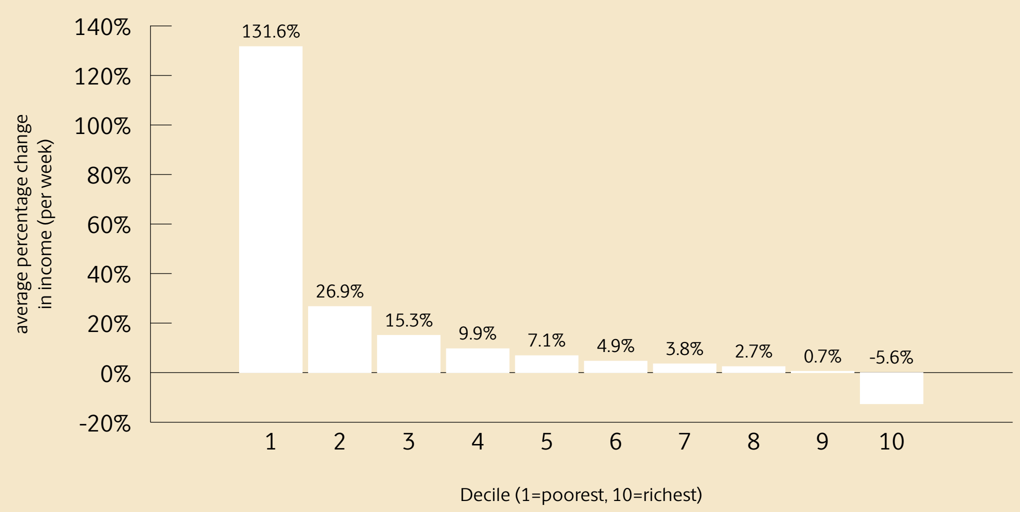
An additional advantage of the use of a citizens' wealth fund financed at least in part by capital dilution is that it would be a mechanism for dealing directly with the distributional issues surrounding the impact of new technology. It would help capture some of the gains from productivity growth arising from new automation.[48] The financial gains from the application of new technology in publicly quoted companies would be reflected in the share price and a capital levy would reflect such gains. This would be one way of collectivising some of the gains from rising productivity, and ensuring that they were shared with all citizens and across generations. Without some attempt to capture at least part of the gain, the risk is that the gains will accrue disproportionately to business owners and their advisers, fuelling an ever-increasing rise in inequality.

> **'Crucially, a citizens' wealth fund would link citizens directly to the basic income system and the basic income floor that it provides, since they would own part (a growing part) of the mechanism that funds it'**

The impact of introducing Model 2

Figure 4 shows that the higher payments made under Model 2 would be progressive, with average gains up to the eighth decile, concentrated among the lowest income groups. (However, it is important to note that the gains are to some extent biased upwards, as there is no allowance for the impact on net incomes of the financing of the higher payments. It would require a separate project to calculate the distributional impact of the citizens' wealth fund option, which would fall most heavily on those with the highest levels of wealth.)

Figure 4: The distributional impact of Model 2 with higher payments (% net income per decile)



The higher payments made in Model 2 also lead to further falls in poverty compared with those made in Model 1, especially among children (see table 7).[49] The Gini coefficient falls to 0.329. There is a further fall in the level of dependency on means testing.

Table 7 Comparison of the impact of introducing models 1 and 2: winners and losers, changes in poverty and inequality

		Model 1	**Model 2**
Weekly rate	Children, 0–17	£40	£50
	Adults, 18–64	£60	£80
	Adults, 65+	£175	£180
Decile 1 (poorest)	Individuals gaining	99.2%	99.4%
	Individuals losing	0.8%	0.6%
	Individuals losing more than 5%	0.4%	0.3%
Decile 2	Individuals gaining	96.9%	97.5%
	Individuals losing	3.1%	2.5%
	Individuals losing more than 5%	1.7%	1.2%
Impact on poverty compared with base year*	child poverty (base = 28.7%)	18.1%	15.6%
	working-age adult poverty (base = 20.2%)	15.7%	14.5%
	pensioner poverty (base = 16.2%)	11.3%	10.8%
Fall in inequality (Gini) from base of 0.377**		Falls to 0.337	Falls to 0.329
Proportion of households claiming means-tested benefits	decile 1 (base = 76.1%)	69.9%	65.8%
	decile 2 (base = 84.3%)	73.8%	69.2%

* Poverty is relative poverty (measured as the proportion of individuals in households falling below 60% of median net household income) after housing costs.

** The Gini coefficient is a summary measure of inequality (where 0 is complete equality and 1 complete inequality). This is the Gini for household net income (after housing costs).

Conclusions

The two models presented satisfy the feasibility tests set out earlier. Both models:

- are progressive: they raise the incomes of low-income households at the expense of those on the highest incomes, cut poverty and reduce inequality; the greatest benefits go to the poorest
- provide a basic income for all, while reducing the level of sanctions; Britain would finally have a secure income floor set to rise over time
- become more progressive and more powerful anti-poverty instruments as basic income payments rise
- help to correct the gender imbalance of the present system
- strengthen the universal element of the present heavily means-tested system
- ensure that there are almost no losers among the poorest households
- apply a new 15p rate of income tax, an additional 3p on each rate of income tax, and an extension of national insurance payments.

Model 1 requires an additional rise in tax of £28bn.

Model 2 links the basic income scheme to a permanent citizens' wealth fund, which over time would pay for a steady rise in the income floor.

Model 1 provides a strong base from which to build. Model 2, a longer-term route, provides the means of strengthening the basic income floor over time.

The models are strongly pro-poor. Higher rates boost the anti-poverty power of basic income, with the progression to higher payments leading at each stage to further falls in poverty, inequality and means testing, albeit requiring higher levels of taxation. The plan offers a significant modification of the existing system of social security – an updated Beveridge plan, one that lowers the new risks of insecurity, precarity and work-based poverty. It comes in two steps, a short term step – an initial basic income funded through the existing tax/benefit system – and a longer term step, with a citizens' fund building over time to finance a more generous scheme. The combined approach could be implemented well within a single generation. This approach provides a baseline income, and thus a bedrock of security in an increasingly insecure world that boosts personal freedom and extends choices about work, education, enterprise, caring and community involvement.

Nevertheless, a basic income scheme is not a silver bullet – it cannot alone deal with all the fault lines of today's economic and social system. It could not be implemented without a much fuller public debate about the options, which involve a significant transformation in the nature of social protection, the character of the tax–benefit system, and the pattern of winners and losers. Such a debate is long overdue. It is over 75 years since Beveridge and there are few other coherent proposals for reform.

For those who reject the cost of a basic income, it is important to note that any reform of the current system of social security that reduces the risk of poverty – that is its role – would cost more and would involve losers. It is not possible to design a reform of the current system that is feasible, costless and in which everyone wins. This would apply equally to other reforms of social security aimed at reducing poverty levels.

We desperately need a more measured but ambitious debate about how to tackle the great blight of poverty, and the excessive means testing and conditionality of the present system. The plan outlined, one grafted onto the existing system leaving it mostly intact, involves a modest increase in taxation, but lowers the risk of poverty, reduces inequality, boosts the universal element of income support, reduces dependency on means testing, greatly reduces sanctioning, and builds a guaranteed income floor. These are substantial gains.

Most of the separate elements that make up a basic income have merit in their own right. Converting the personal tax allowance into a cash payment would be highly progressive. A boost to child benefit, the introduction of a weekly cash payment for young people under 25, the partial correction of the gender bias in the existing system and the income floor would all be important individual measures in any reconstituted anti-poverty programme. They would surely find support among progressive critics. Indeed there is a quite separate case for implementing some of the key individual elements that make up a basic income.

Child benefit, for example, is effectively a basic income for children. Since 2010, the value of child benefit has fallen in real terms by close to a fifth, and there is a strong case for raising its level substantially – and at least restoring its real 2010 value – as a particularly effective way of reducing poverty and boosting universalism, as well as being a key step in the introduction of a basic income. There is also a case for introducing a cash benefit for young adults and examining the potential of converting the income tax allowance into an equal cash payment.

A common criticism is that an affordable basic income would not pay enough to be worth the bother of change, while one which paid a decent rate would be much too expensive.[50] The simulations in this paper show that this portrayal greatly understates the power of a partial approach. It is possible to implement a successful scheme, even with modest payments, that is highly progressive, with modest rises in taxation, that offers a downward push on poverty and inequality, and introduces a powerful springboard for individual security, creativity and opportunity.

There is common ground that the status quo is not sustainable. The present system of benefit fails many of the tests of effectiveness. It is heavily dependent on means testing, and has drifted a long way from the original Beveridge principles. As a society we can and must do better than return to 2010. It's time above all for a major public debate about how we build a better system.

Appendices

Appendix A. The Landman Economics tax–benefit model

The Landman Economics Tax-Transfer Model (TTM) is a micro-simulation model of the tax–benefit system. The model was originally developed for the Institute for Public Policy Research and is also used by the Resolution Foundation and the Joseph Rowntree Foundation.

The TTM uses data from the *Family Resources Survey* to analyse the impact of direct taxes, benefits, tax credits and Universal Credit, and data from the *Living Costs and Food Survey* to model the impact of indirect taxes.

The information in the Family Resources Survey allows payments of direct taxes and receipts of benefits, tax credits and/or Universal Credit to be modelled with a reasonable degree of precision for each household in the survey, using either the current tax–benefit system or an alternative model. For example, the user can look at what the impact of an increase in the income tax personal allowance would be. Using a 'base' system (often the actual current tax–benefit system) and one or more 'reform' systems, the model can produce the following outputs:

- aggregate costings of each system (amount received by the exchequer in direct taxes and NICs, and amount paid out in benefits, tax credits and Universal Credit)
- distributional impacts of reform system compared with base system (e.g. change in incomes in cash terms and as a percentage of weekly incomes in the base system); the distributional effects can be broken down according to several different variables, of which we use two breakdowns in particular in this report: income decile (ten equally sized groups of households, from poorest to richest according to equivalised disposable income), and household type
- winners and losers from a particular reform or set of reforms
- the impact of reforms on overall inequality of disposable incomes (Gini coefficient)
- the impact of reforms on household and child poverty rates.

Appendix B. The impact on pensioners of models 1 and 2

The proposals for models 1 and 2 (the introduction of a citizens' pension) involve abolishing the whole of the current state pension scheme, including the Basic State Pension and the earnings-related component of the State Earnings Related Pension Scheme (SERPS) / State Second Pension (S2P). No new S2P entitlements have accrued since the introduction of the single tier pension in April 2016, but legacy entitlements being paid to pensioners who were not contracted out of S2P and who had accumulated entitlements before 2016 account for around £15bn of total pension spending in 2018/19 according to our model calculations. While pensioners whose only source of income is the Basic State Pension and/or Pension Credit, or who have the Basic State Pension plus just a small amount of S2P do not lose out from the switch from the Basic State Pension to a citizens' pension, pensioners who are receiving more than £10 per week of S2P are likely to lose.

To reduce the number of pensioners losing out, there are two options: preserve existing SERPS/S2P entitlements, or increase the level of basic income payments for pensioners. The first option would cost an extra £15bn per year initially but the cost of compensating pensioners would fall as the proportion of pensioners with accumulated S2P entitlements reduces as older pensioners die and younger pensioners receive progressively less S2P entitlement due to the absence of new accruals after 2016.

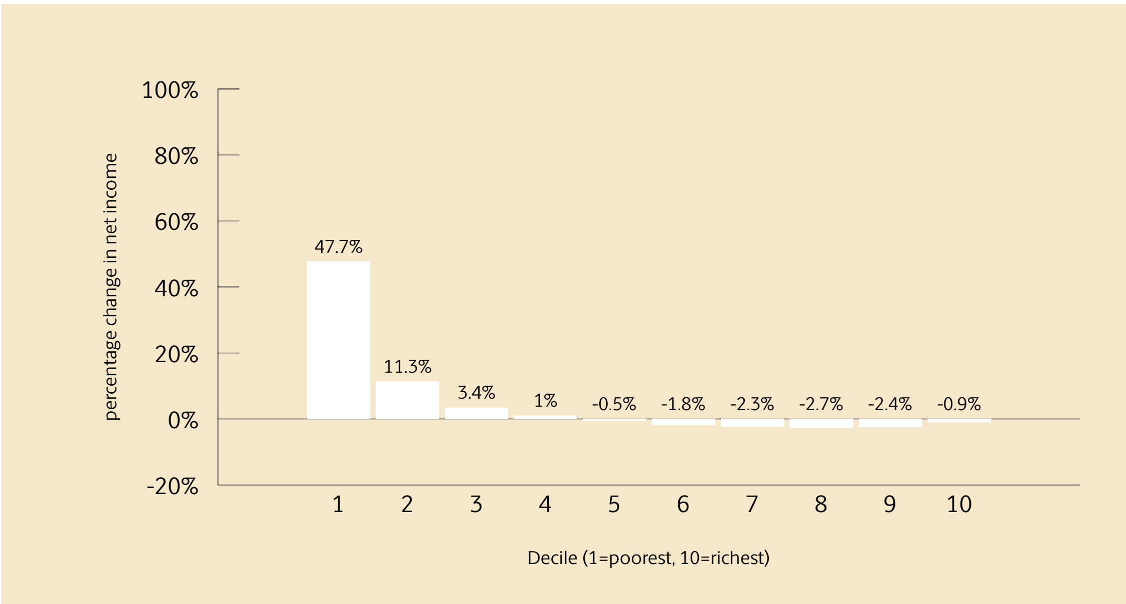
Appendix C. Converting the income tax personal allowance into a flat rate cash payment

This appendix shows the distributional impact of converting the income tax personal allowance (which costs £101bn a year) into a flat rate payment of £25 per week for children and adults of working age, together with a £164.35 flat rate citizens' pension. This is the key first step in building a basic income. (Alternatively, the abolition of the allowance could be used to finance a higher payment just to working-age adults.)

Figure C1 shows that even this modest move is highly progressive, with the poorest fifth of households enjoying significant rises in net income and the top half facing modest falls of between 0.5 and 2.7% (averages by decile).

This is because tax allowances are more regressive than flat universal payments and do not benefit those who earn less annually than the threshold of £11,850. The spreading of the savings from the abolition of the personal allowance leads to gains for a significant proportion of the population, including those who don't gain at the moment from the personal allowance (those outside the labour market and those earning less than the tax threshold), and working households with children, but there would also be losers, including working households above the tax threshold without children.

Figure C1: The distributional impact of converting tax personal allowance into a flat rate cash payment



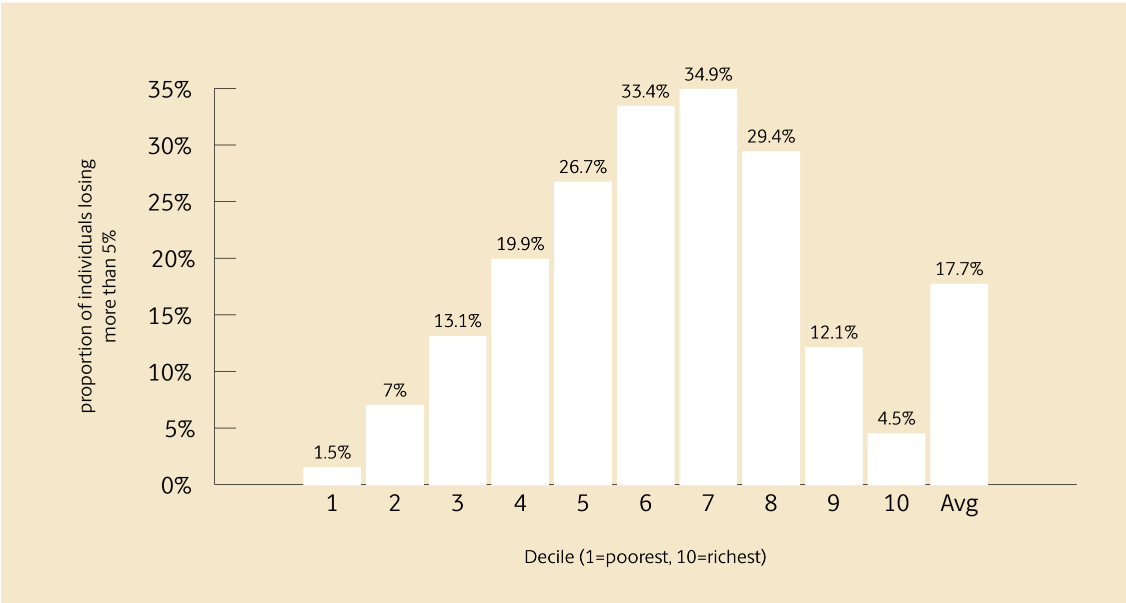
In addition, this move would:

- reduce relative child poverty (after housing costs) by a fifth (from 28.7% to 22.9%)
- reduce poverty for working-age adults by 11% (from 20.2% to 17.9%) and for pensioners by 31% (from 16.2% to 11.2%)
- reduce the Gini coefficient from 0.377 to 0.365
- lead to a modest fall in the level of means testing, from an average of 47.5% claiming to 43.5% after the change; the impact is modest because for working-age people the £25 is disregarded for calculation of eligibility and most will therefore continue to be entitled to means-tested benefits. On the other hand, many low-income pensioners will move off Pension Credit, while by raising incomes among the poorest pensioners, the gap between top and bottom will narrow.

The break-even point falls at around the mid-point of the distribution. Some 52% of individuals lose, with 17.7% losing more than 5% of their net income. The losses arise because standard rate and higher rate taxpayers will lose just under £46 per week from the withdrawal of the personal tax allowance[51] and the cash payment of £25 per week does not fully compensate. The groups with the highest proportion of losers are single pensioners and single adults without children. Those with the lowest numbers of losers are lone parents (0.8% losing more than 5%), couples with children (6.6% losing more than 5%) and couple pensioners (13.8% losing more than 5%).

Figure C2 shows the proportion of individuals losing more than 5% for each income decile if income tax personal allowance is converted into a flat rate cash payment. The losers are those who have gained most from the rise in the tax threshold since 2010.

Figure C2: The proportion of individuals losing more than 5% of net income if income tax personal allowance is converted into a flat rate cash payment



Converting the income tax personal allowance into a flat rate cash payment is a significant element of the progressive power of a basic income. It would guarantee a basic income floor, albeit modest, for the first time and reduce poverty rates especially among pensioners and children. There is a case for considering this move as a standalone change independently of the introduction of a wider basic income, though steps would be needed to reduce the losses among some lower income households.

Footnotes

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