

Written evidence from Stewart Lansley, Compass [PCW0002]

Summary

This paper examines the case for introducing a Basic Income Floor (also called a universal basic income or a citizen's basic income) in part as a way of shielding society from the greater fragility of work. It examines the potential of both a recovery basic income to help support incomes during the Covid-19 crisis, and the measures needed to implement it. It also examines the benefits of a permanent basic income, which would introduce, for the first time, a robust income floor under the existing benefit system.

Introduction

Covid-19 has already breathed new life into the centuries-old idea of a basic income scheme. More than 500 leading public figures have called for an emergency basic income (BI) as a response to the current crisis. Hong Kong, Japan and the United States have made one-off cash payments to help combat the economic impact of coronavirus. In May, following a Europe wide-campaign, the EU Commission agreed to register a Citizens' Initiative for an EU-wide Basic Income. If the Initiative collects one million signatures from at least seven countries within a year, the Commission will be required to respond. In the same month the full findings of the Finnish 2-year trial of an unconditional scheme for a group of 2000 unemployed found significant improvements in wellbeing including less financial stress and depression, without affecting work incentives.

While the UK's Westminster Parliament has largely ignored the idea of a BI in the past, 110 MPs and Peers, across parties, have called for a recovery scheme, while the Financial Times has called for a national debate on its merits.

A BI is a guaranteed, regular, no-questions asked cash payment made to all eligible residents as of right, regardless of their income or employment status. It is not means-tested and is not withdrawn as individuals enter work or raise their earnings. Depending on its level, it would replace some existing benefits, though much of the existing social security system would remain, including disability, maternity and housing benefits and support for childcare.

The flaws of the existing benefit system

The Covid-19 crisis has heightened existing concerns about the adequacy of the existing UK income support system for those of working age. The current

system has not been up to the task of shielding people in an economy where work is increasingly low paid, insecure and precarious. Nor is it equipped to handle today's widespread slump in household incomes. While a third of Britain's 32 million strong workforce are receiving wage support through the furlough or self-employed support schemes – support to be gradually withdrawn in coming months - millions are missing out, opening up a new divide between those well protected by government measures and those that are not.

There are several flaws with the present benefit system:

- It is mean compared with other rich countries and has been further weakened by a decade of austerity. Most benefit levels have been falling over recent decades as a ratio of typical earnings. The main adult unemployment payment – at 15 per cent of average earnings – is worth proportionately less than at any time since 1948.
- Over time, it has become increasingly dependent on means-testing. Although income related benefits have an important role to play in supporting those with special needs, today's mass testing requires complex and often intrusive administration and imposes a cap on individual progress. It carries a very different message from universalism, not of entitlement, but of dependency. This shift represents a fundamental turn from the original Beveridge/Attlee principles of universalism and collectivism.
- In recent times the principle of entitlement has been eroded by greatly tightened work-related requirements, making the benefit system increasingly punitive. Since 2012, 5 million sanctions have been issued against benefit claimants.
- The system also fails the key test of a robust defense against poverty. Poverty rates have recently risen to near-record levels, and are likely to rise sharply over the next few months.

Despite the promises of the post-war years, **Britain has never come close to creating an income floor, and even before Covid-19, millions fell through what is an imperfect, ungenerous and patchy safety net.**

The present system needs radical reform. A system so heavily reliant on a combination of means-testing and high conditionality is always going to leave gaps and vulnerabilities, and is not capable of dealing with regular external shocks. In the last four decades, the UK has suffered a rolling combination of deep recessions and mass unemployment, rapid and ongoing de-

industrialisation, weak wage and income growth for many *and* now a global pandemic.

The income losses driven by the response to the virus are adding to the existing, deep-seated problem of income insecurity driven by decades of destabilising economic and social change. For a significant minority, finding decent, secure work has been a continuous struggle. The now inevitable recession is set to be much deeper than that from the 2008 financial crisis, with predictions of a rise in the number of unemployed of 2 million in the next few months alone. One study suggests that up to 5.6 million workers (including those who are not key workers, those in firms that have closed and groups of the self-employed) are at risk of unemployment and dependency on an already overwhelmed benefit system.

Hence the calls for a basic income scheme.

Shielding the workforce: a new basic income floor

There is a strong case for a phased approach to building a basic income floor (BIF).

A recovery scheme:

If a basic income scheme had been in place at the start of the coronavirus outbreak, it would have provided a simple, comprehensive and immediate mechanism for mitigating the shock waves from the virus.

There is a strong case for a more comprehensive system of support than the measures already put in place to support wages. A new temporary BI scheme would have two key aims. First, to limit the falls in household incomes. Secondly, to be part of a package to boost demand to offset the resulting downturn, and which could be dialed up and down as needed. Unlike a permanent scheme, it would not need to be funded by taxation. The upfront cost of such a scheme could be financed by conventional borrowing or some kind of 'helicopter money' - providing direct cash payments to households financed by printing money - but much or all of this cost would be recovered by faster recovery.

Such a scheme would be aimed at children and adults of working age. However desirable such a scheme would be, Britain – for the moment at least - lacks the means for delivering it. A basic income scheme would require both a national entitlement list and a system for paying them. Although such a list already exists for those in receipt of child benefit and the state pension, there is no detailed single record of all citizens. There are many separate records, including

National Insurance numbers, the electoral roll and passport lists. To implement a scheme - recovery or permanent - these separate sources would need to be brought together to compile a comprehensive list of all those legally resident in the UK, and their addresses, contact and bank details.

Creating a list is perfectly possible but would require broad public consent. The Government should adopt the following steps:

- Start to compile the necessary list for adults.
- Implement a temporary rise in the level of child benefit. Child benefit is, in effect, a basic income floor for children. Such a move would therefore constitute a form of selective and limited BI. The benefit is currently paid to 12.7 million children in 7.3m households. This move would be a straightforward and especially cost-effective way of raising the income floor for families for the duration of the crisis. It would get money to families immediately, with no waits, no forms and no new administration. Such a rise has been called for by [social policy academics](#). A doubling of the current rates would cost around £1 billion a month.
- After compiling a more comprehensive list, this emergency measure for children could be extended to adults. By way of illustration, giving adults say £400 a month and children £160 a month (through child benefit) would provide a family of four with £1120 a month. The benefit to higher incomes groups could be clawed back through tax adjustments. The upfront cost of such a scheme would be in the order of £10 billion a month. This is broadly equivalent to the current monthly cost of the Treasury's 'job retention scheme' and support for the self-employed – which only reaches a third of the workforce.
- These temporary measures should be seen as a bridge to a permanent scheme, to be implemented as part of the process of rebuilding social resilience. An improved system of income support is needed not just as protection during the current crisis, but to support households in the aftermath of the crisis and in periods of future shock, as well as providing a cushion from the inevitable disruption from ongoing automation.

A permanent income floor

A permanent scheme would aim to underpin a creaking social security system in a way that meets the challenges of much more volatile and uncertain times. Crucially, a permanent scheme **would provide, for the first time, an income floor - a robust and comprehensive safety net under the existing benefit system.** The need for such a floor has been all too clearly revealed by the

sweeping impact of the pandemic, as well as the multiple holes in the existing system.

There is a strong case for reframing the BI debate around the *idea of a firm and guaranteed income floor*, a vision promoted over centuries by a long list of visionary thinkers, but one yet to be realised. Drawing on the idea of an entitlement to a ‘national minimum of civilised life’ promoted by Beatrice and Sidney Webb before the First World War ¹, the post-1945 model of social security set out to build just such an ‘income floor’. In the event, the system introduced was far from free of holes and despite decades of change, still lacks a guaranteed floor.

Sitting below the existing benefit system, this *floor* would constitute a new and powerful instrument for social protection in increasingly fragile times. The criteria for such a scheme are set out in the box below.

Criteria for a feasible and progressive basic income floor

It should:

- be paid to all eligible citizens, without condition
- raise the incomes of the poorest, reduce 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, but also preserve work incentives, and therefore not be enough to live off on its own
- raise the level of universality in the social security system, while reducing reliance on means-testing
- be affordable
- minimise losses for low-income households
- 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)
- enjoy broad public support

¹ *Minority Report of the Royal Commission on the Poor Laws and the Relief of Distress*, London: HMSO, 1909

A BIF would be grafted onto the existing system – thereby limiting the level of disruption - and would sit as a lower tier below it. It should be seen as a starter scheme with modest rates of payment for children and adults of working age.

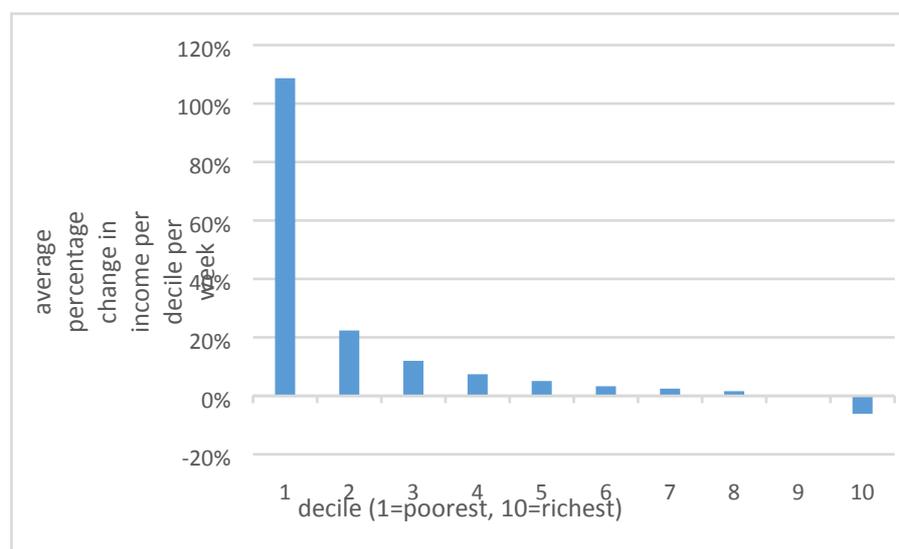
As an illustration, rates of £60 for adults under 65 and £40 for children would pay a significant, unconditional £10,400 a year for a family of four. A study for Compass has shown that such a scheme would be feasible, affordable and highly progressive.

It would:

- create for the first time an unconditional BIF
- boost the incomes of the poorest families, and cut child poverty by more than a third and working-age poverty by over a fifth.
- reduce inequality, strengthen universalism and cut means-testing.
- act as a counter-cyclical device, with rates adjusted to handle both economic and natural shocks.

The figure below shows how the gains would be concentrated amongst lower income groups. The losers, in contrast, would be concentrated amongst the top fifth.

The distributional impact of a modest BIF



Source: S Lansley and H Reed, *A Basic Income for All, From Desirability to Feasibility*, Compass, 2019. https://www.compassonline.org.uk/wp-content/uploads/2019/03/Compass_BasicIncomeForAll_2019.pdf

These gains would rise as the dynamic effects set in. A basic income floor would make a significant contribution to the creation of a more secure and

enterprising society in an increasingly fragile and uncertain world. Even a modest starter rate BIF would build a new automatic anti-poverty force into the existing system. It would provide, for the first time, a modest income for the small army of carers and volunteers, mostly women, whose contribution, largely unrecognised and unpaid, is crucial to the functioning of society. By providing all citizens with more choice over work, education, training, leisure and caring, it would also lay the foundation for greater personal empowerment and freedom, a springboard for more stable and fulfilling lives.

This illustrative scheme would cost around £20bn net. This is less than the aggregate cuts to benefits (of nearly £40bn) since 2010, and the cost of the government's wage subsidy scheme over 3 months. It would take the UK back to a level of social security spending slightly less than in 2010, but with a much more progressive and watertight system in place. It would be possible to implement a scheme at a higher starting point (say £40 per child and £100 per adult per week) though at a higher net cost.

Meeting the gross cost of the scheme would need tax adjustments. The most important of these would be the conversion of the current personal income tax allowance into a cash payment and a small rise in existing tax rates. The personal allowance costs a huge £110bn but is of no benefit to those with low earnings and those not in paid work. If paid to adults of working age, this, on its own, would enable a weekly cash payment of over £40.00 at no additional cost to the Exchequer. Though other forms of funding could be used, these tax changes would ensure that the benefit of the BI payments would be clawed back from the better off, thus raising the progressive impact of the scheme.

Despite its strengths and growing support, the idea of a BI – like the national health service, child benefit and the national minimum wage before it - remains controversial, although it is now being backed by some former critics. Some objectors claim that an unconditional BI would undermine the incentive to work. The disincentive to work argument has long been used to drive benefit rates down and is a red-herring. A recent study of the sanction regime concluded that, far from getting jobless people into work, it was more likely to push them into poverty or ill-health. The disincentive argument might have some force in full-blooded schemes which paid a generous weekly rate – though we should not confuse idleness with unpaid work and leisure - but would not apply to a scheme with modest payments, where, if anything, work incentives would be boosted.

'Not for patching'

A more concerted effort is needed to mitigate the massive economic impact of Covid-19 on households. There is a powerful case for an emergency rise in child benefit. When a comprehensive list becomes available, there is also a case for a 'recovery BI' - an effective, fast and direct way of helping the economy back on its feet. Whether such a recovery scheme emerges, it is time to plan for a permanent BI scheme, one that would finally implement a solid basic income floor.

It is increasingly widely accepted that the scale of the crisis demands a new, more resilient, system of social security - not tweaks to the old one. As Beveridge declared in his 1942 Report that laid the foundations for the post-war system of social support, the time 'is not for patching'. A modest income floor would offer a new vision for social protection in today's more uncertain and turbulent world, a new social contract fit for the 21st century. It would reinstate the principle of universalism, with a lowering of dependency on means-testing. It would finally honour the centuries-long call for a basic income floor. It would put down a marker for the kind of society we would like to emerge in a post-coronavirus world.

Stewart Lansley and Howard Reed

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Both are Compass Associates and co-authors of [Basic Income for All: From Desirability to Feasibility](#), Compass, 2019 and of Universal Basic Income: An Idea Whose Time Has Come?, Compass, 2016.

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