

Written evidence from Dr Malcolm Torry [PCW0008]

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Response to question 3: Is there a need to consider new, long-term approaches to addressing change in the labour market: for example, introducing a Universal Basic Income (UBI)

Seventy years ago, a consensus emerged and was enshrined in the Beveridge Report (Beveridge, 1942): that contributory benefits, in company with an unconditional Family Allowance/Child Benefit and a means-tested safety net, would be sufficient to ensure income security for the UK's population. The assumptions underlying the consensus were that there would be full (male) employment, and that a single full-time male wage would provide sufficient income for the worker and his family.

Recent research has revealed the extent of change in the employment market:

online platforms and the micro-control of workers, but also considerable diversity in employment patterns, and a lot of uncertainty about how the future will look. We know about the jobs that have already been destroyed and those that are changing, and we know about the new jobs that have been created. What we do not know is how the destruction and creation process will evolve in the future. (Gilbert, Huws and Yi, 2019: 47)

There are two layers of insecurity here. First of all: before the coronavirus crisis, income insecurity was already an increasing problem; and secondly: uncertainty about the future shape of the employment market means that we cannot be sure whether earned incomes will be anything like secure in the future. Governments always need to adopt a precautionary approach, so the DWP should assume that earned incomes will become less secure than they are now.

As the assumptions underlying the Beveridge consensus no longer hold, it will be essential to construct a new consensus on how income security might be facilitated. Elements of that consensus would be as follows:

1. The active encouragement of employment, self-employment, and new businesses;
2. The reduction of disincentives related to employment, self-employment, and new businesses;
3. A secure layer of income to enable households to withstand turbulence in other income sources;
4. A continuing means-tested safety net for the meeting of particular needs not met by other income sources.

At the moment, we have an income maintenance system in which every income source is at risk, leaving families vulnerable; in which means-tested benefits, in spite of the lower marginal deduction rates associated with Universal Credit, still deliver high marginal deduction rates and therefore disincentives to employment; and in which the regulations of means-tested benefits can make transitions to self-employment and new businesses difficult to achieve.

A Universal Basic Income

- would provide the secure layer of income required;
- would reduce employment disincentives for any household taken off means-tested benefits, and would bring every household closer to coming off means-tested benefits, and therefore closer to escaping employment disincentives; and
- would provide a solid financial foundation on which a variety of income-generating activities could be built, enabling households more easily to construct strategies composed of employment, self-employment, and new businesses.

As the researchers quoted above conclude:

We have shown that studies in both psychology and economics reveal that, depending on the tax and benefits changes that accompany the implementation of a Basic Income, the effects of Basic Income on labour market participation can be positive for both workers and the economy.

We cannot predict with any accuracy how new technology will affect the employment market in the future. What we can say, on the basis of the research described here, is that a Basic Income would be positive for today's employment market, and that it would be positive whatever shape the employment market takes in the future. (Gilbert, Huws and Yi, 2019: 68)

The Beveridge consensus was designed for, and served well, a particular set of economic and social circumstances. Given today's income insecurity, and uncertainty about the future shape of income-generating work, what is now required is not a new settlement designed for today's circumstances, but one that would be appropriate to *any* future social, economic, and employment market circumstances. That suggests that what is required is the simplest possible scheme. A scheme entirely composed of a Universal Basic Income would be neither feasible nor appropriate (Torry, 2019: 4–9), but one that contained a Universal Basic Income alongside contributory and means-tested benefits would be both appropriate and feasible (Torry, 2020).

Response to question 3.1: Is UBI an appropriate short-term response to shocks in the labour market?

In the sense that a Universal Basic Income would always to some extent protect against income insecurity, a UBI would inevitably function as a short-term response to shocks in the labour market. In relation to the employment market shock related to the current pandemic, an immediate Emergency Basic Income would be impossible to implement because the UK does not possess the database that would be required to administer such an immediate UBI (Citizen's Basic Income Trust, 2020a). However, given the political will, such a database could be constructed in time to implement a Recovery Basic Income designed to inject demand into the economy at the same time as providing secure incomes at a time when that will really matter (Citizen's Basic Income Trust, 2020b). Draft illustrative legislation already exists in case that might be helpful (Citizen's Basic Income Trust, 2018). Research shows that a Recovery Basic Income at a level approaching the Joseph Rowntree Foundation/Loughborough University Minimum Income Standards would be expensive (in the region of £236bn per annum), so could only be afforded for a short period of time: perhaps for a year at the most. However, a permanent Universal Basic Income of a lower amount (£60 per week for working age adults, with different amounts for other age groups) would be financially feasible in the longer term, and with the right changes to the current tax and benefits system could substantially reduce both poverty and inequality, take a lot of households off means-tested benefits, and bring even more households within striking

distance of coming off them (Torry, 2020). Not only would the Recovery Basic Income and the subsequent permanent Basic Income provide precisely the kind of income security that the country will need, but because everybody would receive exactly the same amounts of both of them, social cohesion would be enhanced at a time when we are urgently in need of that.

There will be further social, economic, and employment market shocks in the future. Even if a Basic Income proves impossible to implement in time to assist the country during and after this pandemic, to establish a UBI as soon as possible after it would provide a layer of income security that would ameliorate the employment, economic and social effects of future shocks; and even if implementation of a UBI proved to be politically difficult in the current circumstances, then at least the required database could be constructed so that next time a crisis occurs it will be possible to administer a UBI.

A particular advantage of a UBI is that the amount can be varied very easily. During relatively stable economic and social circumstances the level could remain fairly low: but it could be rapidly increased during a crisis, and then reduced again slowly as the crisis abated. No new measures or systems would need to be rapidly constructed at the beginning or during any future crisis.

Response to question 3.2: What can the Government learn from the international evidence on UBI?

This is not an easy question to answer. The only genuine UBI pilot projects have been in India and Namibia. These showed significantly positive results in terms of increased economic activity; poverty reduction; nutritional, health, mental health, and educational outcomes; the empowerment of women; and crime reduction (Davala, 2019; Haarmann, Haarmann and Nattrass, 2019).

Substantial Minimum Income Guarantee pilot projects took place in the USA and Canada during the 1970s. These set minimum annual incomes for households, and topped up earned incomes to the specified levels at the end of the year: so the payments were income-tested although not work-tested. A recent study of the research results obtained in the town of Dauphin in Canada revealed positive outcomes in relation to poverty reduction, health improvements, women staying at home a little longer after childbirth before returning to employment, young people staying in college longer, and employees made redundant spending a little longer looking for the right job rather than the first job that presented itself. The similarity between Basic Income and Minimum Income Guarantee suggests that a Basic Income would have some of these effects, but the difference between the two means that we cannot be sure of the extent to which that would be the case (Widerquist, 2019).

The recent Finland experiment made unemployment benefit unconditional for two years for two thousand randomly selected unemployed individuals. This group cannot be regarded as a representative sample of the population, so the experiment cannot be treated as a UBI pilot project: but the results were interesting nevertheless. There was a slight increase in employment market activity during the second year of the experiment, and a number of wellbeing indicators improved. The fact that the unconditionality of the incomes increased rather than reduced employment market activity for a randomly selected group of unemployed individuals suggests that the incentivising effect of lower marginal deduction rates is on average greater than the disincentivising effect of the absence of work tests (Kangas et al., 2020: 187–90; Van Parijs, 2020).

A significant problem is that it is difficult to see how a genuine pilot project can be conducted in a country with a developed economy. Any Basic Income scheme that was to be financially feasible in the longer term would require the existing tax and benefits system to be altered. A normal approach to this would be to reduce or eliminate the Income Tax Personal Allowance, alter National Insurance Contribution rates and thresholds, alter Income Tax rates slightly, and add a household's UBIs to the means employed in the calculation of means-tested benefits. This means that a genuine pilot project would require such changes to be made for the community or communities in which the pilot project was to be conducted. This would be difficult to achieve. (It would of course be possible to take an alternative approach and to pay unconditional incomes to all members of a community or communities while leaving the current tax and benefits systems as they are: but while such a project could be afforded in the short term, it would not be financially feasible to roll it out across the country as a permanent addition to the current tax and benefits systems, so the project could not be regarded as a UBI pilot project.) Given sufficient political will, and a sufficiently enclosed community (– the Isle of Wight again?), a government could ask the Department for Work and Pensions and HMRC to put in the work required to pay unconditional incomes to every member of the community, and to make the required changes to the tax and benefits systems, in order to conduct a genuine UBI pilot project.

An important question to ask is whether a pilot project would tell us anything that we do not already know. Microsimulation research uses a computer programme into which are coded all of a country's tax and benefits regulations, and through which the researcher passes financial data on a statistically significant sample of the population (Family Resources Survey data in the case of the UK), to make statistically significant predictions of many of the effects of an illustrative UBI scheme. The method can tell us an illustrative UBI scheme's effects on household disposable incomes, numbers of households taken off means-tested benefits or brought within striking distance of coming off them, poverty and inequality indicators, and so on (Torry, 2019; 2020). The method cannot predict employment market changes, but we already know from the various experiments described above that with any level of UBI likely to be financially feasible we would be more likely to see an increase than a decrease in employment market activity. We can also predict substantial health and mental health improvements, which would be good for individuals, our society, and our economy.

Conclusion

As the Department for Work and Pensions considers the current crisis, with its social, economic, and employment market effects; possible future crises, along with their social, economic, and employment market effects; changes to the world of work that we are already seeing, along with their social and economic effects; the current uncertainty about the future shape of social, economic, and employment market change in relation to new technology; and the inevitable social, economic, and employment market turbulence that is bound to accompany such change: there will two possible routes to follow. One would be to adapt the existing Beveridge settlement and hope that it will continue to be both manageable and useful; the other would be to recognise the usefulness of a Universal Basic Income: as a contribution to social and economic recovery from the current crisis; as a stabilising factor during any future crisis; and as a layer of income security as the world of work continues to change. If the latter route is chosen, then there is again a choice to be made. Either the Government could run a genuine pilot project; or it could decide that there is already sufficient evidence for the feasibility and usefulness of a UBI, that a pilot project would be

both difficult to organise and unnecessary, and that a UBI scheme should be rolled out across the country.

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