Universal basic income: pros, cons and evidence

Blog posts

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In June 2023, it was announced that universal basic income will be trialled for the first time in England, but there is a host of pros and cons to consider to make it a success.

The trial, which will be run by the think-tank Autonomy, will see a randomly selected treatment group of thirty people across Jarrow in the North East and East Finchley in north London receive £1,600 a month without any conditions or requirements. A control group of randomly selected individuals that won't receive the payment will also be formed, and they will be monitored in the same ways so that researchers can compare the experiences and outcomes of the two groups to understand what effects the intervention might have been responsible for. This comes after the announcement early last year of a similar pilot in Wales, where young people leaving care would also receive £1,600 a month for two years as a basic income.

Why is universal basic income being piloted?

These pilots, as well as the growing body of research on universal basic income (UBI), are symptomatic of the current economic picture.

Britain has become one of the most unequal developed economies in the world, with the proportion of individuals in relative poverty near doubling from 12% in 1977 to 22% in 2020. Meanwhile, child poverty over this period has more than doubled from 14% to 31%. High poverty rates are also partly responsible for the decline we have seen in physical and mental health, and wellbeing.

We have also continued to experience weak economic and wage growth rates, leaving our economy fragile and large parts of society with little room to manoeuvre should they experience a hit to their financial circumstances. And then, in quick succession, along came the Covid-19 pandemic and the cost-of-living crisis.

Furthermore, changes to the world of work including the rise of insecure employment and concerns about labour-displacing technological advancements has increased the uncertainty and instability of employment.

In the search to find answers to these issues (rising inequality, poverty and income insecurity), the policy research world has turned to UBI as a potential solution.

Pros and cons of UBI

So, what are the pros and cons of UBI? Well, some of them are a lot more concrete than others.

Increasing income security for the most vulnerable

What is fairly clear is that UBI would go a long way in alleviating poverty and increasing the income security of the most vulnerable in our society. A regular, unconditional cash payment would by definition increase recipients' income levels. This would be especially large in relative terms for those at the bottom of the income spectrum, reducing economic inequality as the difference in the incomes between those at the top and bottom ends of the spectrum would decrease. Additionally, it would remove the earnings uncertainty associated with insecure employment, allowing clearer and longer-term financial planning, and reducing any stress coming from the fear of being unable to pay bills and so forth.

Impact on health and wellbeing

These effects would also have various further direct and indirect impacts on health and wellbeing, in turn resulting in gains to the Exchequer through reduced burden on health and other public services. Universal basic income would also remove the stigma associate with welfare claims, which significantly worsened through the austerity era. This would further improve the wellbeing of ex-benefit recipients.

Reducing administration

Another clear benefit would be a reduction in the costs associated with managing the social security system. There would be less/ no need for benefit eligibility assessment, allowing the DWP to focus less on administration of the welfare system and more on its original purpose of supporting individuals into employment.

Cost

The most concrete con of UBI meanwhile is its cost – this is certainly not a cheap policy option.

Autonomy, in their previously mentioned report, model three different UBI schemes – a modest scheme which would pay a single adult under 65 £3,276 a year, an intermediate scheme which would pay them £7,540 a year, and a full scheme which would pay them £11,700 and which would make payments high enough to ensure that all families reach the Minimum Income Standard (which defines the level of income household require to have a decent living standard, considered the minimum by the general public). The latter of these schemes was estimated to cost £677.5 billion a year, whilst even the most modest of the schemes would still cost £274.4 billion a year.

The cost of UBI leads to perhaps the most widely used critique of the intervention – that a UBI of sufficient level to have an impact is not affordable, and an affordable UBI would not be of sufficient level to have an impact.

Alaska's Permanent Fund Dividend is perhaps the central case of a long-term UBI in practice, but this only pays out typically less than $2,000 per person a year and is funded through oil revenues. Additionally, one can argue that providing all individuals regardless of their current income with a UBI is quite an ineffective way to reduce poverty and inequality – targeted support to those most in need of it as our current system aims to do (although the extent to which it is succeeding is open to debate) could achieve the same ends with far less costly means.

Effects on employment and productivity

The impacts of UBI are less clear regarding employment and productivity. Proponents of UBI suggest that the security it provides combined with the lack of conditionality gives the unemployed greater flexibility in their job search, allowing them to find suitable work in time as opposed to finding any work as quickly as possible. This improves job matching, increasing productivity and output as well as reducing turnover and the business costs associated with recruitment.

Furthermore, the lack of conditionality removes the potential for a welfare trap. This is where an individual is, due to imperfections and cliff-edges in the welfare system, better off not entering into employment. Effectively, the value of the welfare they would lose from entering into employment would outweigh the earnings that entry to or an increase in employment would generate.

An unconditional system would remove this disincentive to enter employment, meaning more individuals may look/ look harder to find employment, boosting total productivity, output and growth. However, UBI would introduce alternative disincentives which might decrease employment. If an out-of-work individual knew that by entering employment they would only be able to earn a relatively low work-related income in exchange for losing their leisure time, whilst they could remain economically inactive and still receive a decent basic income, they may prefer the latter.

Employed individuals may also be incentivised to reduce their employment in the same manner, potentially by reducing their hours or even exiting employment. And even if these incentives were not strong enough to reduce an individual's employment, they might face disincentives to increase their hours or to increase their productivity in order to earn a higher salary.

Tax changes

In their modelling of three different UBI schemes, Autonomy detail the tax changes required to make up the shortfall between the benefits savings that UBI could induce (including the abolition of child benefit and state pension and reductions in Universal Credit/ legacy benefit payments) and the gross cost of the scheme.

For their intermediate scheme, the personal tax allowance would fall from £12,570 to £750, and the income tax rates would increase to 48.2p (basic), 68.2p (higher) and 78.2p (additional) in England, Wales and Northern Ireland, whilst in Scotland the lowest rate of income tax increases to 47.2p, rising to a top rate of 79.2p – this is in part to offset the abolition of employee and self-employed NICs however. In this scenario, if an individual was earning between £37,701 and £150,000 (the modelling was done for the 2022/23 tax year), for every pound that their income increased they would only keep 31.8p.

While the priority of UBI is to increase the incomes of those at the bottom end of the earnings spectrum, as a society we should still want to encourage all individuals to increase their incomes and productivity to promote output growth.

The evidence for UBI

So, what evidence can we draw on to inform decision making as to whether UBI is a viable policy option in order to reduce poverty? The evidence base is relatively limited, adding to the need for the Autonomy-run trial.

A randomised control trial run in Finland for two years from January 2017 remains the preeminent experiment of UBI worldwide. 2,000 randomly selected individuals were paid a guaranteed and unconditional €560 per month, while the control group (all other unemployed people) continued to received the standard benefits with job search requirements and reductions should they enter employment.

This level of payment was relatively modest – see the graph below from McKinsey's summary of the final evaluation report that shows how it compared to the average disposable income of different household types in Finland at the time:

The impact of the trial on employment was seemingly positive – the treatment group worked 3-9% more days a year than the control group with varying degrees of statistical significance. The clearest benefits from the trial were around health and wellbeing – the treatment group were significantly more likely to be free of mental-health problems, to report having "excellent" or "very good" physical health than the control group, and had significantly higher trust levels than the control group.

These impacts were then seen to have created positive feedback loops – improved health and wellbeing allowed individuals to seek out better employment and/ or education opportunities, improving their outcomes and thus further improving their health and wellbeing.

Two-years though is not sufficient time to fully evaluate the long-term impacts of UBI, including health, which is key for it to demonstrate cost-neutrality, and a pilot study does also not allow analysis of the wider, 'general equilibrium' impacts that UBI might have. Unprecedentedly large government payments of welfare which will significantly increase the tax burden are likely to have consequences of inflation, which may erode the gains in terms of incomes and living standards for those the policy aims most to assist in real terms, for instance.

And while the employment effects might have been positive among the study's population of unemployed individuals, evidence is required on its effect on those in employment and across the earnings spectrum before we can consider any generalised impact of UBI on total employment, productivity and output. Additionally, there are significant differences between the Finnish system (where the 'activation' requirements on the comparison group of unemployment benefit claimants was lower than in most other developed economies) which might further limit the generalisability of these findings, especially to the UK where we have our system includes far greater conditionality and highly punitive sanctions.

Conclusions

On the whole, a truly universal basic income is too costly and inefficient a solution for the problems it aims to solve. However, a not entirely universal basic income, instead targeted at some groups that face significant barriers, like care leavers for example, might have legs.

The principle of allowing for more considered job search by relaxing conditionality on behaviour is of merit, as of course is the desire to reduce poverty and income insecurity which have myriad benefits.

We wait with keen interest to see what happens with the trials that were announced and what the findings from them are.

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