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Universal Basic Income - not the answer to poverty



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Universal Basic Income will increase poverty - unless modified beyond recognition.

Universal Basic Income is mooted as a solution to many of the ills of modern economies and stigmatised benefit systems. It's been in the news after [Finland decided to end its short-lived UBI experiment](#). But is UBI a good idea and would it be good for solving poverty? JRF thinks, on balance, it is not.

It is not affordable, unpalatable to most of the public because of its 'money for nothing' tag and perhaps most importantly – it increases poverty unless modified beyond recognition. It fails to deal with the higher needs that many have because of rent, childcare, children or disabilities. As recently put by the last Secretary of State for Work and Pensions: “An affordable basic income would be inadequate, and a basic income that's adequate for all would be unaffordable.”

What is UBI?

Universal Basic Income, Citizen's Income or just Basic Income are terms that are used more or less interchangeably to refer to an unconditional, regular payment made to every citizen of a country or territory, with some differences in amounts by demographic factors like age.

What are the pros?

UBI advocates say it is preferable to means-tested or conditional benefit payments because of:

Dignity and human rights: especially the right not to be destitute (if the levels are sufficient - a big 'if').

Simplicity: basic income as a right for everyone versus complex benefit safety nets.

Avoiding the bad features of means-testing such as stigma, work disincentives and barriers to worker flexibility. A guaranteed baseline income is said to free you up to build on this through paid work, including casual work, without having to worry about interactions with means-tested benefits; it's clearer that 'work always pays'.

Liberty: it can free people from state involvement in their lives.

Future-proofed: an antidote to the advance of automation, which inevitably leads to there being fewer people engaged directly in the labour market.

What are the cons?

A citizen's income would require two big principles to be accepted and supported by the public, namely that:

1. Everyone should get a baseline level of state financial support, even if they choose not to do anything to try to earn money for themselves.
2. The basic marginal tax rate should be much higher than it is now, otherwise almost everybody's net income from the state would rise, and there is no obvious way to finance this. (Some do not assume UBI must be paid for through income tax and suggest a wealth / carbon tax instead, or bigger cuts to state spending elsewhere, for example. None of these are easy options either).

Most politicians in the UK (or in England at least) are likely to regard both of the above as unacceptable to voters - a view supported by long-standing evidence on public attitudes to welfare.

A third objection relates to support for housing (and other) costs. For UBI to achieve its goal of removing the complexity and disincentives involved in means-testing, it would also need to replace support for housing costs. But with largely market-based rents, it would not be easy to include a simple rent element in a UBI payment without creating shortfalls for some or large surpluses for others. The same applies to means-tested childcare support. This counter-argument is strong – arguably public attitudes towards benefits and taxation could change but differing needs will not.

So, a central problem is that advocates of UBI either unconsciously or wilfully fail to

acknowledge that the current system is designed to provide specific payments for people in specific circumstances (e.g. caring, disability, high housing costs, high childcare costs). If you sweep all of that away, you either have to level up, giving a massive boost to people without those specific needs (at huge cost), or you create a fall in income for those with them. Neither is remotely acceptable in any real world.

What might it do for poverty?

Hence the (considerable) redistributive effect of UBI is likely to be concentrated, not on the poorest households, but on those with modest earnings.

Those wholly dependent on state support would be neither better nor worse off if a UBI were introduced at the level of the current safety net. Those with modest earnings would benefit most from having the new non-means-tested payment. This is because any additional withdrawals in taxation from their income under UBI are likely to be lower than withdrawal of safety net benefits in the current system. This might add to the public acceptability of the higher income tax rate required under UBI, given that working people with modest earnings are seen as 'deserving'.

However, it would also mean that little or none of the large amount of additional money that would need to be raised through taxation would go to those who remain on the lowest incomes, because they are unable to work or cannot find jobs.

One un-tested advantage of UBI might be to increase take-up. Without the complexity and stigma of means-testing, this seems likely, all else being equal. However, Universal Credit (as a single household benefit in and out of work) is also expected to increase take-up, which, if it did, would offset some of the relative gains under UBI.

Never mind that, what about some hard numbers?

Compass, in research funded by JRF, modelled a range of different UBI schemes. These are all effectively ruled out as undesirable and/or implausible because it is not possible to raise the revenue needed to support them from taxation – even by increasing the basic rate to 30% from 20%. The UBI schemes also INCREASE poverty for children, working-age adults and pensioners compared to the current tax-benefit system: child poverty rises by over **60%**. This is because of the effects referred to above, namely that the middle/lower-middle of the income distribution pull away from those who are worst off – almost perfectly designed to increase relative income poverty!

Modelling by other organisations (including from other advocates of UBI) show similar effects. What we don't yet know is how people might respond to UBI in practice – the models are static rather than dynamic and therefore only show the blunt redistributive effects, not behavioural ones (like take-up or decisions about working). We ought to keep an eye on the experiments that are underway, which should give better evidence here. An older test, however, in Alaska, found minimal employment effects (an upshift in part-time working, no change to full-time working).

Analysis of two “modified” UBI schemes by Compass showed that costs of implementation ranged from £177bn to £210bn (yes, billion). These costs are covered in the modelling by tax rises, levying National Insurance on all earnings, abolishing the personal allowance and savings on means-tested payments. The basic tax rate has to rise to 25%, the higher rate to 45% and the top rate to 50%.

These schemes are much better for poverty, which falls considerably (by up to 44% for

children, 14% for working-age adults and 5% for pensioners). However, because they retain the bulk of the present means-tested system, they are effectively a top-up of current benefits (which isn't really a UBI system at all), funded by tax rises.

Do you have to be so negative?

If pressed, I'd say UBI opens up a helpful debate about conditionality and means-testing – we agree with many of the criticisms of current system, for example, it can be stigmatising and overly-complex.

The results from the aborted experiment in Finland and the 'pilots' in Scotland (from this year) and elsewhere should be monitored, and of course we should remain open to evidence that is contrary to the modelling that has so far been carried out. One major issue is that we don't really know yet how people would respond to a true UBI in practice.

The fact that the Finnish trial has been cut short (and the work in Scotland is likely to remain merely theoretical) seems unlikely to take the debate much further. These examples indicate the practical difficulties with implementing a true UBI. Rather than continuing to be distracted by it, we should focus on improving the social security system that we have already got – God knows it needs it. A start would be to restore the work allowances in Universal Credit for parents and ensure that benefits are enough for people to keep up with the cost of essentials.

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