One For All: The Case for a Basic Income Guarantee
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FAST FACTS

- A Basic Income would provide a guaranteed income for many who are dealing with sudden upheaval and uncertainty as a result of the Coronavirus crisis.

- Although the UK Government has announced a range of financial support, many people will be caught between the cracks of different schemes and there will still be a time lag before some are available.

- The idea of a Basic Income for all citizens is gaining political momentum.

- A Basic Income also offers longer-term solutions to problems within our welfare system.

- Our existing welfare system actively discourages work due to the so-called 'welfare trap' and withdrawal rates, and is in urgent need of an overhaul.

- A Basic Income could solve these fundamental problems - it would not be withdrawn as personal circumstances change and is not conditional.

- Reform Scotland suggests a Basic Income could be set at £5,200 per year for adults and £2,600 for children.

- It would be free of tax, but replace the personal allowance, tax credits and a number of benefits. All earnings would be taxed.

CONTEXT

Reform Scotland first advocated the introduction of a Basic Income in February 2016 with the publication of our report, The Basic Income Guarantee. That report also set out how such a policy could be implemented, what it might cost on either a UK or Scottish basis, and a suggestion for how it could be afforded.

We advocated a Basic Income because we believe our current social security system is too complicated, both for claimants to navigate and for government to administer. It also actively discourages many from returning to work or increasing their hours. This is because people can find their benefits reduced or taxes increased as a result of work.

This is an abject failing of our welfare system. We cannot blame individuals for not seeking out work if that work would leave them financially no better - and potentially worse - off.

Reform Scotland believes the welfare system should be reformed so that work always pays and we believe that this could be achieved through a Basic Income Guarantee.

A Basic Income could provide long-term solutions to the problems in our welfare system. However, it can also address the very immediate financial problems that the Covid-19 pandemic is causing.

Many people are facing the loss of earnings and work through no fault of their own, either due to following government advice and self-isolating or salary cuts and even unemployment. A Basic Income could provide financial certainty in very uncertain times.
BACKGROUND
The UK’s social insurance and welfare system has grown over the past century to deal with a wide range of economic and social needs. It is complex both to understand and to operate. There is widespread agreement that it should be reformed but little consensus as to the way forward.

Reform Scotland believes that the benefits system should protect the unemployed and under-employed but at the same time must reduce – and ideally remove – any disincentives to take work, particularly part-time work.

The manifest failing of the present system is the cash penalty many face when they take a job - the so-called ‘welfare trap’. As a result, our current system often penalises people for working. For example, they can find that employment for a few hours a week brings little financial gain because of the corresponding reduction in benefits. The same can be true for an increase in hours of work.

While an individual’s precise marginal withdrawal rate will vary due to factors such as eligibility, family structure etc, the impact is substantial.

People are not stupid. It is believed that if we offer incentives to those at the top with bonuses or other financial rewards, they will work harder. Yet we currently have a welfare system which actively discourages work.

In no other situation would you expect someone to work additional hours in return for little or no financial gain. So why should someone struggling on the minimum wage work more and expect no financial reward? It is illogical. Yet that is exactly what our current welfare system does.

Reform Scotland believes this trap means that radical reform is required and that a Basic Income Guarantee is worth exploring as a way forward.

What is a Basic Income?
A Basic Income is an amount of money, which can vary by age of recipient, but is given to every citizen of a country, regardless of their income, gender or employment status.

It is not means tested and does not increase or decrease as an individual’s circumstances change.

It would be free of tax, but replace personal allowances and tax credits. In other words, all earned income would be subject to tax.

It is not a disincentive to work as it only pays enough to cover the basics of life. It would actually encourage work because all work would leave people better off, as there would be no withdrawal of benefit.

It would replace a number of benefits, though not disability/maternity/housing-based benefits.

A Basic Income gives money from the government to all earners, including the wealthiest in society. However, this helps mitigate for the loss of the personal allowance and the increases in taxes which may be required initially to pay for the policy. It also makes the system considerably simpler to operate and everyone is treated the same.
**Devolution**
At present, the Scottish Government on its own could not introduce a Basic Income Guarantee. This is because the benefits that have been devolved are not work-related and address other forms of hardship.

Reform Scotland continues to argue that the majority of benefits should be devolved to the Scottish Parliament. It makes sense to bring together the policy areas associated with alleviating poverty, such as social inclusion and housing, with benefit provision that currently remains reserved.

It is also worth remembering that devolution of welfare has already happened in Northern Ireland, where the Northern Ireland Executive has been responsible for social security, pensions and child benefit since 1998.

However, regardless of where power rests, reform could be enacted in partnership with the UK Government, whether as a policy just for Scotland, as a pilot for the whole of the UK, or as part of reform across the whole of the UK.

Ultimately, regardless of where responsibility for welfare policy sits, developing a Basic Income Guarantee should be the way forward to replace the current work-related benefits system.

**Covid-19 and the growing case for UBI**
The current Covid-19 pandemic crisis has heightened the need for a Basic Income to be seriously considered across the UK.

There are a great deal of uncertainties surrounding the crisis, but we do know that many people are currently facing, and will go on facing, financial insecurity.

People are following government advice, are doing the right thing and self-isolating, but, as a result, are facing the loss of income. Others face earnings being cut or jobs being lost altogether as business come under strain.

The UK Government has announced a range of financial support measures, including changes to Universal Credit, covering the cost of Statutory Sick Pay for certain businesses\(^1\) and the Coronavirus Job Retention Scheme.\(^2\)

However, many people will be caught between the cracks of the different packages and there will still be a time lag before some are available.

As a result, there has been renewed interest in the idea of a Basic Income:

On 18 March SNP Westminster leader Ian Blackford asked Boris Johnson at PMQs about the prospect of emergency legislation to introduce a temporary basic income to help support people during the crisis. The next day at FMQs, First Minister Nicola Sturgeon highlighted the benefit of a Basic Income, stating: “To move through this situation to a universal basic income or citizens basic income approach is the right thing for us to seek to do, and might be the necessary thing to do.”

On 5 April Spain’s Economy Minister Nadia Calvin told the Spanish channel *La Sexta* that a Basic Income would be rolled out “as soon as

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possible” and the measure, would remain after the pandemic is finally over. 3

Following the announcement from Spain, Ian Blackford repeated his call for the UK Government to do the same, saying: “There are serious gaps in the current UK system - and millions of people are not getting the financial support they need. A guaranteed minimum income for everyone would fix these gaps and put cash in people’s pockets. The coronavirus crisis has exposed the deep flaws in UK government policy and the inequality that is rife in our society. This would be a key measure that could be continued for the long-term as part of the enduring fundamental change needed to ensure a strong recovery and build a fairer society that supports all our people.”

POLICY RECOMMENDATIONS

A BIG idea – the Basic Income Guarantee:

Each person would receive an income from the state which cannot be withdrawn or reduced. Any earnings on top are taxed but the Basic Income Guarantee is never withdrawn. So work always pays.

It would be simpler than the current system, and so should permit lower administration costs and less intrusion in peoples’ lives.

Each person is treated as an individual rather than as a member of a household. As a result, people would be treated equally, regardless of gender. Marriage or cohabitation would not be subsidised or penalised.

We set the level of the Basic Income at £5,200 per year for adults and £2,600 for children, in line with the level proposed by the Scottish Greens.

Our 2016 report set out an estimation of how much such a policy would cost on a UK or Scottish basis, as well as one way of paying for it. We demonstrated that the costs could be met through:

- Scrapping certain benefits.
- Scrapping the personal allowance.
- Merging National Insurance and Income tax, including the removal of the upper NI limit.
- An initial 8p increase on all rates of income tax.

The full calculations can be seen in our report The Basic Income Guarantee, but the tables below, taken from that publication, provide summary estimations for Scotland as well as the UK as a whole:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Revenue generated</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-64 citizen’s income</td>
<td>£18bn</td>
</tr>
<tr>
<td>Child citizen’s income</td>
<td>£2.4bn</td>
</tr>
<tr>
<td>Merging NI &amp; Income Tax (so non-taxed allowance now taxed)</td>
<td></td>
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<tr>
<td>Merging NI &amp; Income Tax removes upper NI limit</td>
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<tr>
<td>8 pence added to all rates of income tax</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£20.4bn</strong></td>
</tr>
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As savings were made through simplification and an increase in people working, we would expect the tax rates to begin to decrease.

It is worth pointing out that because everyone in a household would receive a Basic Income, even many higher-rate taxpayers could see a net gain in household income.

Benefits of a Basic Income

- **Simplification:** The current system is overwhelmingly complicated. The Basic Income is very straightforward, as all citizens receive a payment. This also hugely reduces the administration involved, as means testing is removed and the payment can be automated.

- **Individualisation:** Every citizen would have a small independent income, whether or not they were in paid employment, since the individual would be the unit, as opposed to the household. As a result, people would be treated equally irrespective of gender. Marriage or cohabitation would not be subsidised or penalised.

- **Incentivises those who can work, but additional benefits remain for those who cannot:** The income is non-withdrawable and is not means-tested. As a result, work always pays. It guarantees, unlike at present, that every hour worked generates additional income for an individual. However, additional benefits aimed at housing and disability remain in place.

- **All work pays:** Not all work is permanent or full time, and some work is seasonal or sporadic. As a result, it can be difficult for individuals to accept such work without losing out on benefits and facing uncertainty as to what such work opportunities mean. However, all work, no matter the regularity or permanence, would bring additional income to an individual. There would be no constant changes to benefits as working hours changed.

- **Income Tax and Basic Income would balance each other:** Although everyone would receive the Basic Income there would be limits to the pressure for it to be increased. It is likely that increases in the level of the Basic Income would need to be paid for by increases in Income Tax. As a result, Income Tax and Basic Income levels should keep each other in balance.

- **Would increase employment:** All work, no matter the hours or permanence, would pay, removing the current welfare trap and therefore boosting employment.
• **No availability-for-work rule:** Currently, some people who study or train for more than a few hours a week can forfeit some benefits. This would not be the case with a Basic Income. As a result, there would be no disincentive to train/retrain or carry out voluntary work.