Stumbling towards basic income: The prospects for tax-benefit integration

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INTERNATIONAL SOCIAL SECURITY ASSOCIATION (ISSA)
RESEARCH PROGRAMME

CONFERENCE HOSTS: FINNISH ISSA MEMBER ORGANIZATIONS
STUMBLING TOWARDS BASIC INCOME: THE PROSPECTS FOR TAX-BENEFIT INTEGRATION

by

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Executive Summary

This study, funded by the Joseph Rowntree Charitable Trust and a donation from Lord Vinson, reassesses the prospects for tax-benefit integration in the UK, in the light of the New Labour government’s high-profile welfare reform programme.

Introduction: Background to the Project

Tax-benefit reform involves at least three elements - a political process, in which new ideas are brought forward and old ones challenged; a public finance process, in which the new principles are translated into rules and institutions within the revenue and redistribution systems; and an implementation process, in which these in turn are translated into practices by those officials who deal directly with the public with important consequences for social relations. This report is divided into three sections which correspond with these three aspects of tax-benefit reform.

The stated aims of the first part of this research programme were:

(i) to investigate how the New Labour landslide in the UK, and the subsequent high-profile welfare reform programme, have influenced the political culture on tax-benefit issues;

(ii) to investigate how successful the New Labour leadership has been in shifting the terms of debate on welfare reform, and commanding support for its new policy measures;

(iii) to explore the extent and nature of support for a Basic Income alternative to the present approach, and enter into a dialogue with MPs from all parties about such alternatives;
(iv) to compare accounts of issues, values and programmes in the UK and Ireland by parliamentarians, with a view to analysing differences in political culture and policy context, and comparing support for the Basic Income proposal;

(v) to investigate the strategies of the Commission of the Religions of Ireland (CORI) in Ireland to learn whether the Citizen’s Income Trust might better promote the Basic Income proposal by adopting some or all of these - specifically in relation to the work done through *Pathways to Basic Income* (Clark and Healy, 1997).

(vi) to review the present political context for the debate on the feasibility of Basic Income in UK and Ireland.

**Political Culture and Tax-Benefit Reform**

1.1 Tax-Benefit Reform in the U.K. under New Labour

This chapter investigates the changes in political culture that have accompanied New Labour’s welfare reform programme in the UK, and compares this cultural context for tax-benefit reform with that of Ireland. The New Contract for Welfare marks a significant shift in tax-benefit policy in the UK, with measures which redistribute towards low-income households increasingly conditional on labour-market participation.

1.2 Tax-Benefit Reform in Ireland

Whereas New Labour explicitly seeks a cultural shift and emphasises a new political settlement on welfare, Irish tax-benefit reform has a 20-year trajectory, commands a long-term political consensus over goals, and has involved a series of Partnership Agreements with employers, trade unions, farming interests and the voluntary and community sectors.

1.3 Political Culture: UK Interviews

Interviews with 12 MPs from the three main parties and one of the nationalist parties, with a range of ages and lengths of parliamentary experience, showed deep preoccupation with the moral issues of welfare provision, and the ethical justification for reform. MP’s concerns reflected the post-Thatcher impasse over incentives and responsibilities, and responded to the ‘moral crusade’ by the New Labour leadership on benefit fraud and claimants’ work obligations. Whereas some spoke of a ‘moral breakdown in society’ (Conservative M.P.), more saw entitlement as a ‘citizenship issue’ (Liberal Democrat), or deplored the stigma around claiming:
‘nobody seems to be speaking for the underprivileged, and those who have to survive on very low incomes’ (Plaid Cymru M.P.).

1.4 Political Culture: Irish Interviews

Interviews with 14 respondents - TDs from all parties, and other leading actors in the reform process - revealed fundamental agreement about the past and likely future course of the programme. Tax-benefit modernisation was seen as a major factor in the recent success of the Irish economy. The closer these interviewees were to the technical reform process, the more likely they were to recognise and accept an unconditional Basic Income (BI) for all citizens as a possible outcome:

‘we should start moving towards [tax-benefit] integration - through the Family Income Supplement, towards a Basic Income’ (Senior Fine Gael Spokesman).

1.5 Political Culture: Conclusions

Although there are many similarities between the paths of tax-benefit reform taken in the UK and Ireland, the Irish debate is far less moralised, and the policy community more flexible and less ideological about the most efficient ways of improving incentives and social cohesion.

1.6 Implications for the Long-Term Tax-Benefit Reform Process and Prospects for BI

In the UK, MPs could be seen as falling into three groups. **Opponents of BI** in all parties were young, male policy insiders and technocratic in their approach to tax-benefit issues. **Agnostics on BI** in all parties were newer members, less knowledgeable on the technical issues of reform, but strong on welfare casework. **Supporters of BI** (half the interviewees) in all parties tended to be older or more experienced, and much more critical of the ethical basis of the government’s reform programme, but outsiders in their parties’ policy-making process on tax-benefit issues.

**The Dynamics of Tax-Benefit Reform**

2.1 The Reform Process

This chapter analyses the tax-benefit policies that could best deliver New Labour’s goals - making work pay and tackling poverty. It takes as its starting point the New Contract for Welfare’s principle that redistribution should be conditional on active participation by all those capable of work.
2.2 Helping Childless Low Earners through the Tax System

The government plans to improve work incentives for childless couples through the introduction of an Employment Tax Credit (ETC) scheme. Our analysis shows that such a scheme would draw more households into the poverty trap, as the price for alleviating the unemployment trap, give employers and workers inappropriate incentives for part-time employment, and be administratively costly.

2.3 Making Work Pay: a Labour-Market Participation

Given the government’s goal of maximising formal labour-market participation, a more efficient approach would be to increase income tax allowances and introduce a taper into the calculation of Income Support. The combination of these two policies would allow incentives to be improved and made consistent across the whole range of earnings, eliminating excessive inducements for part-time employment. Even assuming that benefits are held at present rates, these two measures could redistribute substantially in favour of low and average earners at a cost of around £17.5 billion, consistent with the government’s anticipated fiscal capacities over the course of the next two parliaments.

2.4 Rewarding Responsibility: a Social and Economic Participation Income (SEPI)

Because the above measures would increase tax allowances while holding benefit rates stable, at this point in the reform process the values of these two would converge. When an LMPI was introduced, they could be equalised, and the whole tax-benefit system integrated. However, this equivalence of fiscal and benefit support would be likely to increase political pressure for rewarding work done outside the formal labour market, by carers, unpaid activists and volunteers in particular. The costs of including all these forms of participation in the system and individualising benefits would be approximately a further £10.5 billion.

2.5 Recognising Citizenship: an Unconditional Basic Income (UBI)

Almost all citizens would be included in a SEPI, and the administrative costs of testing claims for ‘unpaid participation’ would be high. Social inclusion and a ‘full engagement society’ would be better achieved by an Unconditional Basic Income, offering improved incentives to work and save. The extra cost of this would be around £4.5 billion.
2.6 Households with Children

During the reform process, more support for households with children could be given by reducing the number of hours of employment required to qualify for tax credits - a SEPI for parents could be achieved through the WFTC. However, a substantial increase in Child Benefit might achieve the same goal more efficiently, avoiding the poverty trap problems associated with tax credits.

2.7 Pensioners and Pension Policy

The basic state pension could easily be converted into a UBI for this group, by giving everyone over 65 an income equivalent to the present rate of Income Support, including the age increments given at 75 and 80 years. This would cost £8.2 billion redistributing towards the poorest pensioners.

2.8 Conclusions

Our analysis shows that, following the logic of the government’s tax-benefit reform goals, a staged progression to a Basic Income would be more capable of delivering the outcomes sought than the present approach based on tax credits and strong conditionality. The three stages in this process (LMPI, SEPI and UBI) would respectively command the political allegiance of the three groups of MPs - ‘technocrats’, ‘agnostics’ and ‘BI supporters’ - identified in the first chapter.

Implementation of Tax-Benefit Reforms

3.1 Formal and Informal Economic Activity

This chapter analyses the consistency between the various elements in the New Labour programme, to see how the tax-benefit reform process will affect other policies. One key issue will be the evolution of employment in the services concerned with ‘social reproduction’ (health, education, social care, retailing, leisure, and so on), which are recognised as providing most of the scope for expansion. What is the best balance between formal and informal work in these activities?

3.2 The Unintended Consequences of a Labour-Market Participation Approach

Our analysis accepts New Labour’s core values (equal worth, opportunity for all, responsibility and community) but draws attention to the difficulties in the means of it has chosen for implementing them, especially its priority for paid employment.
3.2.1 People with Disabilities and Incapacities. The government’s goal of empowerment and inclusion are in tension with increased conditionality and targeting of benefits for these groups. In particular, the All Work Test categorises claimants as either fit or unfit for any work, and hence excludes many from full engagement.

3.2.2 Social Care. The government seeks to raise qualifications and standards in social care services, and to support carers. However, the combination of predominantly commercial agencies and the WFTC is likely to perpetuate low-paid part-time employment, while full-time unpaid carers will be excluded from fiscal support.

3.2.3 Homeless People. Homelessness has been an early target of the Social Exclusion Unit, but new policies owe more to social control than empowerment. It is difficult to activate and include people who are not ready for formal employment, and there is a need to expand informal work opportunities in this and other policy areas.

3.3. Paradoxes of Tax Credits and Negative Income Tax

Tax credits which encourage people to leave benefits and take formal employment do not necessarily increase overall formal labour supply. Households previously ineligible for in-work benefits may reduce their hours of employment, because of poverty traps. Furthermore, these approaches to tax-benefit reform may give perverse incentives to ‘formalise’ care and other activities more efficiently done informally.

3.4 New Labour’s Means of Implementing Welfare Reforms

This section gives examples of how the government’s broader programme is hindered by the current tax-benefit rules. The attempt to dismantle barriers to participation and inclusion faces obstacles in the conditions for benefits, for instance in the Employment Zones. The goal of ‘joined-up’ policies is hampered by rules that insist that citizens are either required to work or unfit for work; single gateways exclude people from many benefits or opportunities, once they are so categorised. Public-private partnerships prioritise profit over social goals, and tax credits subsidise low-paying enterprises. Indicators and targets precommit the government to certain outcomes, and restrict choice and adaptation by citizens.
3.5 The Justification for a Citizen’s Income (CI)

The transition from the government’s New Contract for Welfare to a CI requires a shift to unconditional income support for citizens. It has been a strength of the New Contract that it insists on reciprocity (‘something for something’). However, responsibilities cannot in the long run be imposed by governments. We argue that a sustainable tax-benefit system must rely on incentives for paid work, and individual citizens’ accountability to each other in civil associations, community groups and families. CI offers better incentives for earning and saving, and is neutral between paid and unpaid work. It promotes full engagement through choice and voluntary co-operation in collective activities.

3.6 Housing Costs

None of the three stages of tax-benefit integration discussed in this report deals directly with the vexed question of housing costs. The problems of sustaining housing supply while improving affordability arise under all approaches to income security. A CI system neither resolves nor exacerbates these difficulties; various options are discussed.

Findings: The Path of Tax-Benefit Reform

The path of tax-benefit integration investigated in this report is not the only possible one. An alternative might involve an ETC with progressively lower minimum employment hours for eligibility. New Labour reforms might lead to something like a SEPI but stop short of a CI. However, our analysis shows that a CI has fundamental advantages, in terms of equality, inclusion, opportunity and social cohesion, over the other alternatives explored. It could provide a tax-benefit regime to promote equal access, equal chance and an equal stake in economy and society for all citizens.
Appendix

Stumbling towards Basic Income: the prospects for tax-benefit integration

DUFFIN, Stuart and JORDAN Bill

Citizen’s Income Study Centre, UK
The Research Problem = compatibility of social justice and labour market flexibility

Attitudes to Basic Income/Citizen’s Income

Irish policy insiders: logical conclusion to tax and benefit reforms currently underway - might ‘stumble backwards’ into something like a BI

UK policy insiders: ‘social science fiction’

BUT in some ways UK ripe for BI – because policy of price uprating benefits means Income Support will eventually be worth the same as the tax allowance
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Mechanistic process - government commits to introduce a full Basic Income and then phases transition over a number of years

- Introduce a ‘Partial Basic Income’ paid to all individuals (set at the value of the personal tax allowance, i.e. £20 per week)
- Abolish the tax allowance
- Retain ‘top-up’ means tested benefits
- Gradually increase the value of the Partial Basic Income until means tested benefits no longer needed
Priorities (revealed)
1. No conditionality
2. Incentives
3. Level

Objection: Benefits of the Partial Basic Income go predominantly to the better-off, plus retention of ‘top-up’ benefits means existing problems remain.

The transition to a Basic Income: our approach

Concerned with the internal logic of tax-benefit reform: explicit attempt to map out a ‘path of least resistance’

Priorities (taken from New Labour)
1. Incentives
2. Level
3. No conditionality

Participation Income
What is a participation income?

“...the most promising route (for tax-benefit reform) is to complement Modernised Social Insurance with a scheme which preserves the principle of a basic income, of not being means tested and of being on an individual basis, but which is conditional on participation.” Atkinson (1995)

How ‘conditional’?

- Tight conditionality: Labour Market Participation Income (LMPI)
- Broad conditionality: Social and Economic Participation Income (SEPI)
- No conditions: Unconditional Basic Income/Citizen’s Income (UBI/CI)

N.B. our analysis looks at pensioners and children separately.
<table>
<thead>
<tr>
<th>Stage</th>
<th>Reform</th>
<th>Cost (£ bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LMPI</td>
<td>- Raise tax + NI allowance/reduce starting rate to zero</td>
<td>£10(?)</td>
</tr>
<tr>
<td></td>
<td>- Raise tax allowance to earnings of a ‘full time’ low earner</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Taper-off entitlement to Income Support</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Individualise Income Support (?)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- (100% benefit take-up)</td>
<td>£17.6</td>
</tr>
<tr>
<td>SEPI</td>
<td>- Give workers choice of taking the tax allowance as a benefit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Tax system performs benefit-withdrawal function</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Extend eligibility to benefits to carers, etc</td>
<td>£28.3</td>
</tr>
<tr>
<td>UBI</td>
<td>- Extend eligibility to everyone/ make payment unconditional</td>
<td>£32.9</td>
</tr>
</tbody>
</table>
Helping childless low earners through the tax system

Assumption 1: Revenue buoyancy means government has £10 billion to give away over the next five years (post-CSR)

Assumption 2: Objective is to boost the incomes of the working poor - (childless) low earners on the minimum wage working ‘full time’

Assumption 3: Preference for redistribution via the tax system rather than benefits

Options

• reduce the basic rate from 22% (from April) to 17%
• widen the 10p starting rate from £1,500 to £5,250
• raise the tax and NI allowance to £6,500 (+ abolish starting rate)
• introduce an ‘employment tax credit’
### Effect on low earners of widening the 10p tax band

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual tax giveaway (£bn)</th>
<th>Top of starting rate band (£pa)</th>
<th>Increase in the annual income of a low earner working:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>34 hours 38 hours 42 hours</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>5835</td>
<td>*          *          *</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>6585</td>
<td>64 90      90    90</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>7335</td>
<td>64 153     180   180</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
<td>8085</td>
<td>64 153     243   243</td>
</tr>
<tr>
<td>4</td>
<td>8</td>
<td>8835</td>
<td>64 153     243   243</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
<td>9585</td>
<td>64 153     243   243</td>
</tr>
</tbody>
</table>
Effect on low earners of raising the tax and NI allowance

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual tax give-away (£bn)</th>
<th>Level of tax and NI allowance (£pa)</th>
<th>Increase in the annual income of a low earner working:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>34 hours</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>4335</td>
<td>*</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>4835</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>5335</td>
<td>200</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
<td>5835</td>
<td>300</td>
</tr>
<tr>
<td>4</td>
<td>8</td>
<td>6168</td>
<td>367</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
<td>6500</td>
<td>406</td>
</tr>
</tbody>
</table>
An employment tax credit?

Problem with raising the tax allowance is that everyone gains the same (in absolute terms).

Need for better targeting; but current tax system is incapable of producing this outcome. Therefore…

“our long term aim is an employment tax credit, paid through the wage packet, which would be available to households without children as well as households with children”.
(Gordon Brown, May 1999)
## Earnings Top-Up Rates

<table>
<thead>
<tr>
<th>Scheme A</th>
<th>Credit</th>
<th>Couple</th>
<th>Single 25 and over</th>
<th>Single under 25</th>
<th>For working 30 hrs+ pw</th>
</tr>
</thead>
<tbody>
<tr>
<td>Couple</td>
<td>49.85</td>
<td>30.00</td>
<td>24.40</td>
<td>11.05</td>
<td></td>
</tr>
<tr>
<td>Single 25 and over</td>
<td>80.65</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single under 25</td>
<td>62.45</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scheme B</th>
<th>Credit</th>
<th>Couple</th>
<th>Single 25 and over</th>
<th>Single under 25</th>
<th>For working 30 hrs+ pw</th>
</tr>
</thead>
<tbody>
<tr>
<td>Couple</td>
<td>60.15</td>
<td>30.00</td>
<td>24.40</td>
<td>11.05</td>
<td></td>
</tr>
<tr>
<td>Single 25 and over</td>
<td>80.65</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single under 25</td>
<td>80.65</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Three ETC schemes

• **Design 1**
  Maximum tax credit = £30 a week
  Threshold = £62.45 a week

• **Design 2**
  Maximum tax credit = £30 a week
  Threshold = £80.65 a week

• **Design 3**
  Maximum tax credit = £40 a week
  Threshold = £80.65 a week

Taper rate = 55%
Bonus for working 30+ hours = £11.05 a week
The effect of an **Employment Tax Credit on low earners**

<table>
<thead>
<tr>
<th>Design</th>
<th>Estimated Cost (£bn)</th>
<th>34 hours</th>
<th>38 hours</th>
<th>42 hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.4</td>
<td>678</td>
<td>398</td>
<td>118</td>
</tr>
<tr>
<td>2</td>
<td>1.2</td>
<td>1466</td>
<td>1186</td>
<td>906</td>
</tr>
<tr>
<td>3</td>
<td>0.7</td>
<td>1198</td>
<td>918</td>
<td>638</td>
</tr>
</tbody>
</table>
Problems with an ETC

1) Measures which reduce the ‘unemployment trap’ tend to worsen the ‘poverty trap’

“By making low paid work more attractive to the unemployed, the Earnings Top-up will reduce incentives to become or remain higher paid. It will extend to all workers the possibility of very high marginal tax rates” Redmond and Sutherland (1995)

2) Conditionality: why make benefits for childless people working 16 hours a week unconditional?

Plus
• take-up problems
• high administration costs for employers
• ‘weird’ incentives (if entitlement to ETC calculated over a 5 week period)
• intrusiveness/return to joint taxation
Why taper-off Income Support?

• Reduces poverty trap (and increase in tax allowance reduces unemployment trap)
• Does not have arbitrary effects on the number of hours worked (i.e. does not categorise individuals as either ‘unemployed’ or ‘working’)
• Allows benefits system to offer assistance/impose sanctions on people working less than ‘full time’
• Dynamics effects: increases income mobility and hence reduces social exclusion

“We found the more hours they put into these mini-jobs [of less than 16 hours] the more likely they were to get a job working more than 16 hours the following year. This kind of employment seems to boost prospects, more than going on a training course does.”
Berthoud and Iacovou (Guardian 11,2,2000)
Stage 1: Labour Market Participation Income (LMPI)

Theme = **Making Work Pay**

- Raise personal tax allowance to the earnings of a ‘full time’ minimum wage worker (i.e. from £4,335 to £6,500)
- Taper-off entitlement to Income Support (instead of introducing an ETC)
- Individualise Income Support (?) – not costed)
- Leave benefit conditions unchanged
Net Income of a (single) low earner under a 50% taper and a £5335 tax allowance
Net Income of a (single) low earner under a 41% taper and a £6500 tax allowance
## Cost of a LMPI

<table>
<thead>
<tr>
<th>Measure</th>
<th>Cost/Saving (£, bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in tax allowance</td>
<td>10.3</td>
</tr>
<tr>
<td>Taper in Income Support</td>
<td>4.5</td>
</tr>
<tr>
<td>Increase in take-up to 100%</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17.6</strong></td>
</tr>
</tbody>
</table>

Source: POLIMOD.
Distributional effect of a LMPI

Source: POLIMOD.
Stage 2: Social and Economic Participation
Income (SEPI)

Theme = **Rewarding Responsibility**

- Give workers the choice of taking the tax allowance as a benefit (full-time permanent employees unlikely to switch)
- Tax system performs benefit-withdrawal function (like ‘emergency tax’ under PAYE)
- Benefit rates and tax allowance set together in the Budget….. will lead to automatic earnings-uprating (?)
- Extend eligibility to benefit payments to carers, etc
- Benefit payments conditional on participation in either the formal or the social economy
## Cost of moving from a LMPI to a SEPI

<table>
<thead>
<tr>
<th>Measure</th>
<th>Cost/Saving (£, bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEPI benefit payments</td>
<td>79.7</td>
</tr>
<tr>
<td>Abolition of tax and NI allowance</td>
<td>-35.5</td>
</tr>
<tr>
<td>Savings on benefits</td>
<td>-15.9</td>
</tr>
<tr>
<td>Total cost of SEPI</td>
<td>28.3</td>
</tr>
<tr>
<td><em>Cost of LMPI (see Table 5)</em></td>
<td>-17.6</td>
</tr>
<tr>
<td><strong>Net additional cost of SEPI</strong></td>
<td><strong>£10.7</strong></td>
</tr>
</tbody>
</table>

Source: POLIMOD.
The distributional effect of a SEPI and a LMPI compared

Source: POLIMOD.
Stage 3: Unconditional Basic Income (UBI)

Theme = Recognising Citizenship

• Benefit paid to all adults irrespective of their labour market status or non-labour market activity
• Establish a residency test (EU-wide?)
• Abolish the tax allowance
• Move to a flat-rate tax (?)
• Deduct all tax at source/abolish income tax (?)
Cost of moving from a SEPI to a UBI

<table>
<thead>
<tr>
<th>Measure</th>
<th>Cost/Saving (£, bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UBI benefit payments</td>
<td>87.7</td>
</tr>
<tr>
<td>Abolition of tax and NI allowance</td>
<td>-35.5</td>
</tr>
<tr>
<td>Savings on benefits</td>
<td>-19.3</td>
</tr>
<tr>
<td>Total cost of UBI</td>
<td>32.9</td>
</tr>
<tr>
<td>Cost of SEPI</td>
<td>-28.3</td>
</tr>
<tr>
<td>Net additional cost of UBI</td>
<td>£4.6</td>
</tr>
</tbody>
</table>

Financing a UBI would require a flat tax of 40% (though less in the future…)
The distributional effect of a UBI and a SEPI compared

Source: POLIMOD.
Net Income of a low earning lone parent under the WFTC

Source: DSS (1999b).
In the table below, we see the comparison between the proposed and current rates for Child Benefit. The proposed rates are slightly higher, with a maximum of £25.40 for the eldest child and £16.30 for each subsequent child. The current rates are £14.40 for the eldest child and £9.60 for each subsequent child.
### Income Support premia for children

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Premia</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-11</td>
<td>24.90</td>
</tr>
<tr>
<td>11-16</td>
<td>25.90</td>
</tr>
<tr>
<td>16-18</td>
<td>30.95</td>
</tr>
</tbody>
</table>

Plus family premia (i.e. addition for the eldest child) 13.90

### WFTC premia for children

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Premia</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-11</td>
<td>19.85</td>
</tr>
<tr>
<td>11-16</td>
<td>20.90</td>
</tr>
<tr>
<td>16-18</td>
<td>25.95</td>
</tr>
</tbody>
</table>
Cost of a basic retirement income

<table>
<thead>
<tr>
<th>Measure</th>
<th>Cost/Saving (£, bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit payments</td>
<td>37.6</td>
</tr>
<tr>
<td>Savings on basic pension</td>
<td>-25.7</td>
</tr>
<tr>
<td>Savings on other benefits</td>
<td>-2.9</td>
</tr>
<tr>
<td>Additional tax revenue</td>
<td>-0.8</td>
</tr>
<tr>
<td><strong>Net cost of a basic retirement income</strong></td>
<td><strong>8.2</strong></td>
</tr>
</tbody>
</table>

Source: POLIMOD.
Distributional effect of a basic retirement income

Source: POLIMOD.
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