Universal basic income and the future of work

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Summary

A Universal Basic Income is a regular payment from the state to every citizen. The idea dates back centuries and has been promoted by voices on the left and right. In its purest form, it would represent a radical simplification of both the social security and tax systems, and comes with significant advantages and disadvantages.

Interest in UBI has been growing recently and is linked to debate about the future world of work, especially greater job insecurity and the impact on technology on employment. This report examines the adequacy of UBI as a response to possible developments in the labour market.

There are five key risks from the changing world of work:

1. **More insecure work**: there have been increases in self-employment, zero-hours contracts, agency work and in the number of people who want to work more hours than they do.
2. **Stagnant pay**: average real wages will not rise for the 15 years following the financial crisis, according to official forecasts. This period could stretch out even longer if productivity does not start to improve or if any such improvements are not passed on in wages.
3. **Skills and jobs dislocation**: the UK has both skills shortages and excess capacity in less relevant skills. Faster industrial change could lead to more dislocation.
4. **Rising inequality**: we are currently experiencing rising geographic inequality, the hollowing of the labour market and the rise of ‘one wage’ towns and workplaces.
5. **Insufficient work**: labour supply per capita is likely to fall over the next few decades so the UK can cope with a modest decline in demand. However, some experts predict labour demand will fall rapidly as a result of technology change (many others disagree).

A UBI would help to address some of these risks, but not all, and it comes with disadvantages too:

1. **More insecure work**: A UBI-based tax/benefit system responds automatically as people cycle in and out of work or change their hours. This is one of the main advantages of the policy. It also provides better rewards for working short hours, so it could increase the numbers in precarious work, at the same time as making their lives a little less precarious.
2. **Stagnant pay**: a UBI is not a solution to pay stagnation caused by flat productivity, as it is principally a policy for redistribution not economic growth. A scheme funded by personal taxation is also likely to reduce the disposable income of median earners without children. If pay was to stagnate because it had decoupled from rising productivity (ie the labour share of GDP was declining over the long term), a UBI funded by taxes on profits or wealth might be a solution.
3. **Skills and jobs dislocation**: a UBI would increase the financial incentives to find work but remove work-search conditions. Proponents say this would lead to better matching of workers to jobs and allow people to retrain. Sceptics question whether training instead of job search is helpful and fear that people could slip into long-term worklessness.

4. **Rising inequality**: A well-funded UBI would redistribute more resources, but this money would be targeted at low to middle income households not the very poorest. Such a scheme would entail high tax rates so might be impossible to introduce or erode in value over time. Recent modelling of specific UBI proposals has projected increased poverty. The uncertain or even negative effects of UBI on poverty and inequality are a very significant limitation to the case for the policy.

5. **Insufficient work**: the case for a UBI would only arise if productivity was rising and hours of work falling, leading to stagnant weekly earnings (this is a version of the problem of pay stagnation caused by the labour share of GDP declining). If hours of work in the economy were instead becoming more unevenly distributed a UBI would not offer a solution (such rising inequality in weekly earnings would not be effectively addressed by a revenue-neutral UBI reform).

Alternative policy solutions also have the capacity to respond to these risks:

**Universal credit** is much worse than UBI at incentivising work but it provides a better cushion when earnings fall. This means it is well designed to respond to the risks of *pay stagnation, inequality* and *insufficient work*. UC currently fails to offer a subsistence income for people without work, but nor would any conceivable UBI funded by personal taxes; and it would cost less to raise the value of UC in future. In addition, money raised from any future taxes on profits or wealth would be much more efficiently redistributed through UC than UBI. Like UBI, universal credit is designed as a response to *insecure work* with the value of net payments varying automatically as people’s employment circumstances change (assuming it is implemented successfully). Both systems create greater incentives for short hours, which UC seeks to mitigate by a controversial regime of ‘in-work conditionality.’ In the face of *skills and jobs dislocation* UC’s conditions and sanctions are intended to keep recipients close to the world of work, but this offers little to those who need to re-skill or change occupation.

**Contributory benefits** are only paid when people are out of work so cannot offer a solution to existing workers facing *pay stagnation, earnings inequality* or *insufficient work*. However, like UBI, they offer protection for people out of work who are not eligible for means-tested support and this could become more important with rising *insecure work* or *skills and jobs dislocation*. Working-age contributory benefits are today a small part of the social security so introducing extra support might be relatively cheap. Priorities include relaxing eligibility conditions to insure more people in insecure work, and improving the entitlements for people without work facing skills and jobs dislocation.

**Alternative universal entitlements** could be introduced, with some of the features of a UBI:
• **A learning allowance** could be paid on a non-means-tested basis to everyone out of work studying appropriate, high-quality FE and HE, as a response to *skills and jobs dislocation*.

• **Child benefit could be paid at a much higher rate.** This would replicate the main distributional effect of a UBI, with far less cost and controversy, and help families with respect to all five labour market risks.

• **Tax-free allowances** which pay the equivalent of a basic income to workers earning enough to benefit, could be gradually turned into a credit paid to everyone, in a way that left no one worse off in cash terms. Means-tested benefits would remain in place. This would be a response to *insecure work, jobs and skills dislocation, inequality and insufficient work*.

When thinking about the risks arising from the future world of work, a UBI has some advantages, but in many cases more practical reforms offer alternative solutions. In reality, even most proponents of UBI accept that the policy would need to sit alongside some continuing means-testing. So a pure UBI is not a silver bullet for the changing world of work. Supporters and opponents of UBI should therefore desist from polarising confrontation and seek to discover where they share common ground, especially on the role of universal entitlements within a multi-layered tax/benefit system designed for the changing labour market.
1. Universal basic income’s return to the debate

What is it?

A very simple idea lies behind Universal Basic Income (UBI): that every citizen should receive a regular income from the state, regardless of their circumstances.

The idea itself is not new. It has roots in the 16th century, when Thomas More argued in *Utopia* (1516) for a universal payment to stop those in poverty from having to turn to crime to survive.¹ Since then a basic income has been promoted by political thinkers from Thomas Paine to Friedrich Hayek. And the free market economist Milton Friedman supported the closely related concept of a ‘negative income tax’ to replace much of the welfare state.²

A UBI differs from contributory or means-tested models of social security because people receive the same amount, regardless of whether they are in or out of work, or how much they earn. As such, it is often regarded as a radical departure from existing welfare systems, something its supporters argue is necessary to meet the challenges of the future. This is particularly true in the case of proposals for a full UBI which would replace most or all other benefits.

But a UBI is as much a proposal for reforming taxation as social security, because the payment is clawed back through personal taxes and replaces tax-free allowances. This is particularly important in the context of the UK tax system which now has very extensive tax allowances, which act rather like cash payments for those who qualify (ie like a basic income, but one that is regressive not universal).

There are many proposed versions of UBI and they vary significantly. UBI experiments have been set up in Finland, California and Kenya, with further pilots planned in Fife, Glasgow and a number of other cities and local areas around the world.³ Each of these models vary with respect to eligibility (some are restricted to certain groups), generosity (ranging from modest top-ups to subsistence allowances) and funding sources (government, NGOs and businesses have all played a role).

Why is UBI supported today?

The chequered history of UBI provides the context for the diversity of its support in the UK, which ranges from the Green Party to the Adam Smith Institute.⁴

Recently, the case for a UBI has been reinvigorated by concerns about rising insecurity at work and the impact of future technological developments on employment.⁵ Campaigners, academics and Silicon Valley entrepreneurs have suggested that a UBI could help people to manage the consequences of growing industrial dislocation, and even substitute for lower earnings in a world where there is less work to go round.⁶
This paper is concerned with the adequacy of UBI in addressing changes in the labour market. It should be noted, however, that many other (often interdependent) arguments are made in favour of UBI, including:

- **The pursuit of social justice**: particularly reducing poverty, tackling inequality and ensuring everybody has a basic level of income security.
- **Improvement of the social security system**: reducing bureaucracy, improving incentives to work, and removing the punitive ‘conditionality’ of today’s social security.
- **More freedom for the market**: the reduction of state intrusion, the size of the welfare state, and potentially an overall reduction in government spending.
- **Support for creative, civic and family life**: rewarding currently unpaid forms of work such as family care, and providing everybody with the means to pursue creative and voluntary activities.

**Concerns with UBI**

The largest barrier to the implementation of UBI is cost. If an allowance were to be set at or close to a subsistence level of income (for example the value of pension credit) a revenue neutral reform would require a very large increase in taxation that most people would consider impossible in today’s political and economic climate. A noticeable tax rise would be required even for a UBI to replace today’s inadequate out-of-work benefits (something which would be needed, to ensure that people without work were not left worse off).

The second key problem with the UBI is its inherent inability to recognise differences in need or earning power. A UBI is designed to vary only with age and family size so cannot reflect variations in housing costs, the economies of scale of living in a couple, or the higher costs and reduced earning potential experienced by many disabled people. As a result many people would end up worse off under a UBI, even if it matched the basic rates for out-of-work benefits. Recent modelling suggests that a pure UBI might actually increase poverty among non-working households.

For these reasons, some leading advocates of UBI now seem to accept that the allowance should be supplemented by continuing means-tested benefits (especially for housing). However, anything that is not a pure UBI implies that means testing and capability assessments would still be required, negating some of the key arguments underpinning the case for a UBI.

Finally, the unconditional nature of UBI has been criticised for its tolerance of long-term joblessness. A UBI would create improved financial incentives to move into work but it would also remove work-search conditions, so it is unclear whether the policy would have a positive or negative impact on long-term unemployment. Public attitudes are also an important consideration and at present it is hard to imagine political consent for unconditional payments for everyone without work, given widespread support for the ethical value of work and public concerns about ‘free-riders’ (in a recent referendum in Switzerland 77 per cent opposed introducing a UBI).
The 2016 Fabian Society report *For Us All: redesigning social security for the 2020s* is accompanied by a table that sets out the arguments for and against a UBI more extensively (reproduced in the appendix).
2. Five risks from the changing world of work

The changing world of work in the UK has led to calls for a reappraisal of social security and employment policy to meet a range of current and future challenges. This chapter reviews five key risks: insecure work; pay stagnation; skills and job dislocation; rising inequality; and finally, the spectre of insufficient work in the future.

Insecure work

The proportion of people afraid of losing their job has risen steadily since 2001. This should come as no surprise, as the period has also seen an increase in less secure forms of work.

The most important shift has been a significant rise in self-employment (which in most cases precludes basic employment rights, such as the right to a minimum wage, sick pay, pension contributions, and parental leave). The number of people in self-employment grew by 47 per cent between 2000 and 2017, with the proportion of the workforce in self-employment increasing from 12 to 15 per cent over the period. This rise has mainly been among lower skilled workers, with average self-employed earnings now 20 per cent lower today than ten years ago.

Recent years have also seen a rise in other forms of non-standard work. The number of people on zero hour contracts has risen nearly five-fold since the turn of the millennium, with recent figures showing just under one million people were working without any guaranteed hours in 2016. Over the same period the number of agency workers has risen to 865,000.

More broadly, an increase in the number of people working part-time has been linked to a sharp rise in people working part-time and wanting more hours. The number of part-time workers who want a full-time job has nearly doubled since 2000 and now accounts for 1.1 million people, although the figure has declined somewhat in the most recent years.

The expansion of precarious work is a powerful political idea, which has given rise to numerous books and articles. However, some analysts have warned against exaggerating the extent to which the labour market is changing. For example, David Coats has argued that while levels of insecure work have risen in recent years, the shift is much smaller when viewed in a longer term context. And separate fears of sharp rises in temporary work, multi-jobbing and short job tenures have not been borne out by the data.

These caveats reflect the fact that most people remain in permanent jobs and are happy with their work. Nevertheless the evidence does show a clear rise in some forms of insecure work, particularly self-employment. This was formally recognised by the government with the establishment of the Taylor Review into modern forms of work and its proposed (but abandoned) measures to reduce tax incentives that encourage self-employment.

The emergence of new platform technologies and business models, such as those used by Uber and Deliveroo, are making it easier for businesses to deploy self-employed and agency
workers. But there is nothing inevitable about the UK having more precarious work than other European countries; it is a result of weak regulation and government inaction. The prevalence of insecure work can be reduced through good policy. Without intervention however the incidence of non-standard forms of work is unlikely to have reached its peak.

**Pay stagnation**

Workers in the UK have experienced nearly a decade of slow (and at times non-existent, or negative) real pay growth. This makes the post-recession years the worst period for pay growth in over 200 years. Average earnings remain around £20 a week below their pre-crisis peak, and while pay has begun to pick up, inflation has too, meaning real pay has gone into decline again.

This pay stagnation has occurred against a backdrop of slow growth in GDP per capita and particularly low growth in productivity (ie economic output per hour of work), something that is generally regarded as a precondition for improved living standards. Stagnation in pay is therefore a result of the economic ‘pie’ not growing, rather than a major change in how the pie is being divided (labour accounts for roughly the same share of national output as its long term average before the crisis). Figure 1 demonstrates just how far growth in output, productivity and pay have fallen compared to past trends, not just in the pre-crash years but at any point since the industrial revolution.

**Figure 1: key indicators of prosperity over the last 250 years**

<table>
<thead>
<tr>
<th>Year</th>
<th>Labour share of GDP (excl residential rents)</th>
<th>Average annual growth in real hourly earnings</th>
<th>Average annual growth in labour productivity per hour</th>
<th>Average annual growth in GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1750-1799</td>
<td>59%</td>
<td>0.4%</td>
<td>0.4%</td>
<td></td>
</tr>
<tr>
<td>1800-1849</td>
<td>61%</td>
<td>1.2%</td>
<td>0.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td>1850-1899</td>
<td>64%</td>
<td>1.4%</td>
<td>1.5%</td>
<td>1.3%</td>
</tr>
<tr>
<td>1900-1949</td>
<td>73%</td>
<td>1.4%</td>
<td>1.3%</td>
<td>0.8%</td>
</tr>
<tr>
<td>1950-1999</td>
<td>72%</td>
<td>3.2%</td>
<td>2.9%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2000-2007</td>
<td>74%</td>
<td>3.1%</td>
<td>2.2%</td>
<td>2.3%</td>
</tr>
<tr>
<td>2008-2015</td>
<td>75%</td>
<td>-0.9%</td>
<td>-0.1%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Source: Bank of England

Current forecasts for growth in pay suggest that real average wages in the UK will not return to their pre-crisis peak until 2022. Even this could be too optimistic, as official projections continue to assume that productivity growth will return to levels at or near the pre-crisis trend. But 9 years after the crash there is no sign of this happening and many experts are questioning whether the UK (or developed economies in general) will be able to return to past levels of growth in productivity, and therefore pay.

Economists like Larry Summers argue that structural problems such as weak investment and low real interest rates mean that productivity growth in rich countries could remain...
poor for the foreseeable future. And the UK may face particular problems, given that its productivity level was below the G7 average to start with and has grown by less since the crisis. Additionally, Brexit could exacerbate these problems for many years to come, if a reduction in trade, investment and competition impacts on productivity.

If the productivity puzzle is mainly a structural rather than a cyclical phenomenon, pay could stagnate for far longer than the current forecasts suggest. A long-term slow-down of this magnitude is without precedent in the last two centuries.

Skills and job dislocation

The UK already suffers from a mismatch of demand and supply in skills and this could be set to worsen. Employers struggle to find the skills they need, with one in seven employers in 2015 reporting areas in which their staff were not fully proficient. The skills gaps tended to be in skilled occupations, particularly for specialist, job-specific skills among those in high-skill occupations. Many fear that these problems could get worse with the UK’s exit from the European Union. Employers in engineering, technology, construction and other industries have warned that restrictions to the flow of labour are likely to create new skills gaps.

The other side of this skills mismatch is an excess capacity of less relevant skills, leaving people unable to find jobs that match their skill set. For example, many forecasts have predicted a growing need for soft skills, specific technical skills and adaptability. People losing work in shrinking industries and occupations are frequently unable to meet these needs.

Many economists predict that dislocation will become a growing problem for all developed economies, because they expect the pace of industrial change to increase. New technology is transforming business models and changing job requirements faster than ever. As a result, millions of people in declining industries and occupations may be unable to match their skills to the jobs of the future, repeating the skills and jobs dislocation of the 1980s.

All these challenges are exacerbated by the UK’s long-standing weakness in technical education and lifelong learning.

Inequality

For the next few years inequality is expected to rise as a result of tax and benefit policies. But over the longer term, industrial change also threatens to drive greater inequality in the UK. London and the South East are growing in their economic dominance, the labour market is becoming increasingly polarised between high and low paying jobs, and overall earnings inequality could be set to rise for the first time since the 1980s.

Turning first to geographic inequalities, London and the South East of England are responsible for almost 40 per cent of total UK output, up from 34 per cent in 1997. Some of this has been driven by population shifts, but in London output per capita has also grown
by far more than the UK average, strengthened by the ongoing switch from manufacturing to services, and particularly by investment in high productivity jobs in sectors like financial services. This has created well paid service jobs for millions of people, but it has also sucked talent away from other regions, further reinforcing the geographical divide.

A number of commentators have also pointed to a growing divide between cities and smaller towns or more peripheral communities. While major urban centres across the UK have been able to establish themselves as hubs for emerging industries including high-value manufacturing and digital, post-industrial towns are deprived of the same levels of investment, seeing job opportunities moving to the big cities.

The hollowing out of the labour market has also introduced a growing divide between high and low skill occupations. Technological development and globalisation have reduced the number of middle tier jobs in the UK, and while high productivity jobs in industries like high value manufacturing, professional services and digital are growing the government’s social mobility commission has suggested that there are fewer opportunities for those in the growing low-paid occupations to progress. Meanwhile skilled workers in declining sectors are likely to shift into low paid work, rather than acquire new technical or professional skills.

These trends make the issue of low pay a particular challenge, with many sectors and communities seeing a very high incidence of jobs paid at or near the national living wage. The new wage floor for people aged over 25 is a recognition of the UK’s persistent low pay problem, but it has also thrown up the new difficulty of employers routinely setting pay at the national minimum. The Low Pay Commission has predicted that between 2015 and 2020, the proportion of the workforce covered by the national minimum wage and national living wage will rise from 5 to 14 per cent. As a result commentators have started to discuss ‘one wage’ towns and sectors, with employers increasingly benchmarking pay against the legal minimum and removing differentials between different types of worker.

Contrary to received wisdom, overall inequality in market incomes had not been rising in the years before the economic crisis, in part due to the introduction of the minimum wage in the late 1990s (following a period of rising market income inequality in the 1980s). However, the income share going to the top 1 per cent grew steadily until the financial crisis. Since the crisis there has been some compression in earnings inequality, because high earners have been hit proportionately harder than others during the slump. The OBR says this may continue to be the case as the UK adjusts to Brexit, if earnings in the financial services sector are suppressed.

Nevertheless, over the long term, many economists expect very high earners and the owners of capital to capture a higher share of economic output than in the past. For example Richard Freeman predicts that the growing role of technology and robotics will increase accruals to capital rather than labour in the future, further adding to market inequality. The labour share of GDP seems to have started to decline in recent years (the statistics paint a mixed picture) but it is unclear whether this represents a cyclical or structural change.
Insufficient work

The final and most contentious risk is the possibility of there being fewer jobs or hours in the UK labour market in the future. Proponents of this theory argue that a new wave of technology will substantially reduce labour demand by opening up the automation of professional and cognitive work in ways that has never happened before.\textsuperscript{51}

It is said that the increasing advancement, availability and affordability of technologies including artificial intelligence and machine learning will lead to wider, deeper and quicker disruption to the labour market than that which occurred during any previous period of industrial change. Carl Frey and Michael Osborne’s research has suggested that 35 per cent of UK jobs are at risk of automation.\textsuperscript{52}

However, a more recent study from the OECD has suggested Frey and Osborne’s forecast is overstated, with the figure likely to be around 9 per cent, a level in line with previous periods of industrial change.\textsuperscript{53} In the past such industrial restructuring has always created more jobs than it has destroyed and while there is consensus that the speed of technological and industrial change will lead to dislocation, the proposition that the overall level of work will decline remains controversial.

A closer look at the historic data shows that the intensity of labour in the UK economy has in fact declined over time (figure 2). However this has been achieved by a combination of more jobs and fewer paid hours per worker (figure 3). This may have been a result of labour demand declining in past periods of automation and productivity improvement, but people have also opted to supply less work as their rising hourly wages have permitted it.

\textbf{Figure 2: weekly hours of paid work per capita (total population)}
The proof that this is a story of labour supply not just demand comes from the 1970s. It was then that the long-term decline in the labour intensity of the economy came to an end as women started to enter the labour market in large numbers. Since then an overall increase in the employment rate has been balanced by fewer weekly hours per worker (including among men) resulting in almost zero change in hours of work per capita.

### Figure 3: indicators of employment intensity over the last 250 years

<table>
<thead>
<tr>
<th>Period</th>
<th>Weekly hours of paid work per head</th>
<th>Weekly hours of paid work per worker</th>
<th>Share of population in paid work</th>
</tr>
</thead>
<tbody>
<tr>
<td>1750-1799</td>
<td></td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>1800-1849</td>
<td></td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>1850-1899</td>
<td>22</td>
<td>58</td>
<td>42%</td>
</tr>
<tr>
<td>1900-1949</td>
<td>22</td>
<td>49</td>
<td>44%</td>
</tr>
<tr>
<td>1950-1999</td>
<td>16</td>
<td>36</td>
<td>45%</td>
</tr>
<tr>
<td>2000-2007</td>
<td>15</td>
<td>32</td>
<td>47%</td>
</tr>
<tr>
<td>2008-2015</td>
<td>15</td>
<td>32</td>
<td>47%</td>
</tr>
</tbody>
</table>

Source: Bank of England

But this plateau may well be about to end. There is less scope for rapid increases in women’s employment, and the male and female employment rates are now converging only very gradually; weekly hours per worker continue to decline, albeit slowly; and demographic change will reduce the proportion of the population aged 16 to 64. Over the next 20 years OBR employment projections imply a decline of half an hour a week of paid work per
capita, and that is without taking account of any potential reduction in paid hours per worker, as people opt for a better work-life balance.54

Given what we know about the likely profile of future labour supply in an ageing society, and how the economy has become less work intensive over the last 200 years, a modest reduction in demand for labour in the next few decades may not be something to fear. However, this would only be the case if real hourly pay starts to rise. And we will need to worry if demand for labour falls abruptly and rapidly, rather than modestly. At the moment, this is probably a remote possibility but if it happened it would demand a decisive policy response.
3. Is UBI a response to the changing world of work?

So would a UBI be a solution to the five risks arising from the changing world of work? This chapter examines what role a UBI might play, either in the short term or in future decades.

Insecure work

A UBI is often proposed as a response to the growth of precarious forms of work, for example by Guy Standing in his 2011 book *The Precariat*. The argument is that a flat-rate payment provides a secure base, irrespective of whether people are employed, self-employed or out of work - providing a platform as people cycle in and out of work and change their hours week-by-week. With a UBI everyone would receive the same basic income, with personal tax liabilities rising or falling in line with varying earnings.

This case is particularly persuasive when compared to traditional benefits, as people usually need to reapply when they move in or out of work, or when they cross the threshold of 16 hours work per week. Redesigning the tax/benefit system so that it is automatically responsive to the flexibility of the modern labour market makes a lot of sense and this is one of the best arguments advanced in favour of UBI (see chapter 4 for a discussion of universal credit, which is an alternative solution to the same problem).

Additionally, a UBI can be expected to be particularly advantageous to people with low total earnings, working a few hours a week. At present people in this situation lose a very high share of each extra pound they earn, through the withdrawal of benefits. Under a UBI they would experience the same marginal rate of tax as other workers, and so would end up with a higher disposable income. Alongside families with children, people with very low earnings are intended to be the principal beneficiaries of a (fiscally neutral) UBI.

However, as a UBI would increase rewards for working only a few hours a week, relative to longer durations, it could also encourage more people to work short hours.\(^5\) If people switched from longer hours, the consequent fall in labour supply could inhibit economic growth.\(^6\) On the other hand, labour supply might rise if the same financial incentives encouraged people to shift from not working into short-hours work. This could happen because UBI ends the ‘poverty trap’ of out-of-work benefits and the risk of income interruption associated with cycling in and out of work (though an increase in labour supply cannot be guaranteed because a UBI would remove employment-related conditions from out-of-work benefits at the same time). Either way, a UBI may well increase the number of people in precarious forms of work, at the same time of making their lives a little less precarious.

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**BOX: UBI and bargaining power**

UBI’s impact on financial incentives to accept insecure work raises the issue of the bargaining power of workers. Researchers have speculated that a UBI could have either a positive or negative impact on workers’ ability to demand better pay and conditions. If a UBI increased the supply of labour for insecure jobs this would be expected to have an
adverse impact on wages and terms of employment. The cushion of UBI would make it easier for employers to hire to exploitative positions - casual, short hours or low paid work – and would in effect be a subsidy for ultra-flexible employment practices. For this reason some left-leaning advocates of UBI say that the policy needs to be accompanied by a high minimum wage and tough regulation of zero hours and temporary contracts. By contrast neo-liberal supporters of the policy, favour UBI precisely because it is a market-friendly alternative to high minimum wages for securing minimum acceptable living standards.

The alternative view is that a UBI could give workers the power to turn down exploitive work, both because they would have an alternative source of income and because there would be no conditionality requiring jobseekers to take whatever work is available. This might lead to reduced demand for low paid work, better pay and conditions and the possibility of better worker organisation. Indeed, one view is that a generous UBI could transform worker-employer relationships and should primarily be seen as a policy for redistributing power not resources. Confusingly, some UBI advocates argue at the same time that UBI will increase supply and improve terms: it will ‘enable citizens to accept low wages and to bargain more strongly.’

In the UK these considerations would not apply to workers with higher earnings (ie making full use of tax-free allowances) because a fiscally-neutral UBI would have little impact on their net income. For most of the workforce therefore the policy would be unlikely to have a significant impact on labour supply or wages. However, on the margins, a UBI might improve bargaining power because it would provide a source of income during a strike, and would therefore make the threat to withdraw labour more credible.

Pay stagnation

A UBI is unlikely to be a solution to pay stagnation, when this is caused by flat productivity. When productivity growth is low it means that new prosperity is simply not being created, for it to be distributed by a UBI or any other means. A UBI funded by taxes on labour would just act as a ‘closed loop’ for re-distributing existing earnings, offering no mechanism for pushing up average incomes.

Figure 4: disposable income under an illustrative basic income funded by progressive taxation, compared to the 2017/18 tax/benefit system
Adapted from model A in Torry, M. (2015). “Two feasible ways to implement a revenue neutral citizen’s income scheme: Euromod working paper series”, University of Essex. A 25 per cent basic rate of tax is assumed. Housing costs are ignored, assuming an identical means-tested system is available under both models.

In fact, the disposable income of most people without children would probably fall under any UBI designed to be sufficiently generous to replace basic means-tested benefits (excluding support for housing costs). Figure 4 shows the impacts of a UBI funded by increasing the basic rate income tax by 5 pence and scrapping tax-free allowances, compared to the 2018/19 system of tax and universal credit. Under this example a single adult would start to see a lower disposable income once their annual earnings reached around £12,000 and one with median annual earnings of £23,000 would be almost £600 per year worse off. The specific numbers will vary with the details of the scheme, but a negative impact on median earners without children is almost inevitable under a fiscally neutral UBI where payment matches existing benefits.

The main beneficiaries of a UBI are families with children, both because of payments in respect of children and because non-earning parents in working household receive a payment. There is a good case for redistributing income from people without children to those with children, to reflect higher costs of living and to tackle child poverty (since 2010 the government’s tax/benefit reforms have silently done the opposite, at a high cost to families).61 Perhaps, in the future, policy makers might also wish to provide extra support for parents to remove financial barriers to having children (completed family size per woman has been in long-term decline, but recent evidence is unclear as to whether this trend will continue).62 However, redistributing to households with children is not the same as supporting overall incomes in response to stagnant pay.
There are some circumstances in which it is possible to imagine a UBI boosting average real earnings, rather than just being an engine of redistribution. In particular, it is argued that a UBI could redistribute resources from capital to labour, if funded by the taxation of profits, wealth, financial transactions or robots (the last recently proposed by Bill Gates). This argument could have merit if there was evidence of long-term divergence between growth in pay and productivity (and therefore a decline in the labour share of GDP), perhaps as a result of increased automation. In this case a UBI would be a means for sharing rising national prosperity, if the new taxes were feasible and commanded public support. However, it is not clear that the UK is presently facing a significant and long-term decline in its labour share (certainly when compared to other countries). As things stand, the greater challenge is undoubtedly productivity growth not the labour share of GDP.63

Finally, there are three other ways a UBI might conceivably boost real earnings, all of which are contested from a conceptual or empirical standpoint:

1) Raising progressive taxes and transferring more money to low and middle income households with a high propensity to spend might increase aggregate demand and so boost GDP per capita and average earnings. However there is also a possibility that the high taxes would reduce the labour supply of high earners and therefore suppress growth in productivity and GDP per capita.

2) If the security offered by UBI resulted in higher bargaining power (see box above) this might increase average wages relative to GDP and possibly even improve productivity.64

3) An ‘unfunded’ UBI, supported by money creation, might increase real incomes and consumption (without unsustainable inflation or public debt). Some respected economists now support this argument in conditions of severe economic contraction; only unorthodox voices call for permanent money creation.65

Skills and job dislocation

In the face of increased industrial dislocation, proponents of UBI argue that it could provide income security while people shift jobs and acquire new skills. A UBI would provide more support than job seeker’s allowance because it would be available to everyone without work, regardless of means or contribution. JSA is only available when the whole household has low income and assets, or (for 6 months only) when an employee has an adequate contribution record.

However a UBI would also be available without conditions, bringing to an end the existing ‘work first’ regime of welfare-to-work. This is a controversial element of the case for a UBI not just from the perspective of public consent, but also of what policy is in recipients’ own long-term economic interests. Proponents of UBI argue that a non-conditional payment would give people the breathing space to find a job better matched to their skills, preventing their talents being wasted in low-skill, low-productivity work; and that it would allow people to choose to prioritise re-training for the long-term over immediate work search.66
It is also suggested that the withdrawal of conditions would be more than offset by the increased financial incentive to work under a UBI and that labour supply would actually rise (albeit with differential effects among different sorts of people). As we have seen people would have a financial incentive to take a few hours of work, which might provide a bridge back into the world of work.

The counter-argument is that without work-related conditions people who become unemployed at a time of industrial dislocation are at risk of slipping into long-term worklessness, as was seen in the 1980s. A systematic review of the impact of conditionality has shown there is “compelling and consistent evidence” that jobseeker conditions and sanctions raise job entry levels slightly (though questions were raised over the quality of that employment). In official circles there is also scepticism that training provided while people are out of work improves their employability or future earnings (although in the UK this may partly reflect a very weak system of technical education and lifelong learning).

Inequality

In chapter 2 we saw that market inequality is not rising rapidly in the UK at present. However income inequality still remains high compared to other nations and our geographic inequalities are amongst the worst in the world. In principle a UBI could be part of the solution because a basic income funded by progressive taxation will always be more redistributive than a means-tested payment of identical value, since more money is raised through taxation and then redistributed. The two systems will pay similar amounts to the poorest households without work but a UBI will pay more to people with slightly higher incomes; and although the UBI is paid to rich and poor alike, for high income households the policy’s greater overall cost translates into higher tax rates and net transfers.

A reasonably generous UBI could therefore reduce inequalities of income. When schemes with these characteristics are modelled an overall fall in inequality is usually identified, although the main beneficiaries are households with low to middle incomes not the very poorest (who one might argue should have first claim on extra financial support).

Similarly, a UBI funded by progressive taxation could be an engine for geographic distribution. Communities with high numbers of people who have very low weekly earnings or who are neither working nor claiming means-tested benefits are particularly likely to benefit. Areas with above average earnings will lose out.

However, there is no guarantee that a UBI would be implemented with the same rates of payment as previous means-tested benefits. Many proposals for UBI would introduce payments at levels slightly below today’s (already inadequate) benefits. This is because the proponents of UBI are reluctant to call for the steep increases in taxation required to fund a like-for-like replacement for means-tested benefits. When such schemes are modelled high numbers of poor households are left worse off and relative poverty is projected to rise. This has led some advocates for UBI to conclude that a pure basic income is not feasible for the time being, even though their campaigning does not make this terribly clear.
Even if a UBI was introduced in a way that did not reduce the incomes of people who were previously reliant on means-tested benefits at the point of implementation, there would be no guarantee that this state of affairs would endure in the long run. The critical question is which system is more likely to see its generosity sustained over time, relative to the size of the economy. Annually increasing a UBI would be much more expensive than uprating a means-tested system, so the increases might be less generous (or they might crowd out other desirable, pro-poor components of the welfare state). On the other hand, achieving consent for extra spending might be easier given that the system would include the whole population so would presumably have more popular support.

The experience of austerity would seem to support this second thesis, since the near-universal state pension and tax-free allowances have been generously increased, while means-tested benefits have been cut in real terms. In the past, international comparative studies also supported this conclusion. In the late 1990s researchers found that, across advanced economies, universal systems were more progressive in their effects, because they sustained public support for generous transfers, even though these were less well targeted at low-income households.

However, the most recent studies do not support this finding and instead suggest that well-designed mean-tested systems are just as good or better at supporting poor households, compared to more expensive universal regimes. It is easy to imagine how a UBI could lose value over time. Any system that was understood to be redistributive (between rich and poor; or between South East England and the rest of the UK) would soon start to be criticised by the losers. And a UBI funded by corporate riches would certainly be at risk of being eroded, since any initial robot-inspired guilt from business elites could not be expected to translate into enduring buy-in to very high redistribution.

Therefore, as things stand, we cannot be confident that a UBI would significantly and sustainably reduce inequality or poverty – and certainly to the degree that might justify such a huge and politically controversial reform. It might well end driving poverty and inequality upwards. For egalitarians this is a very significant limitation in the case for a fully-fledged UBI.

**Insufficient work**

In coming decades, it is likely that people will do a little less paid work than today, as a result of population ageing as much as technology change. However, beyond this, we have seen that some experts predict a really significant reduction in the hours of paid work in the economy. It is this latter scenario which is particularly associated with proposals for a UBI.

The argument is that with less work in the economy overall, people will need an additional source of income to supplement the fewer hours they work or to compensate for being out of work altogether. This proposal needs unpacking from a macro-economic perspective. The concern should not be the prospect of fewer hours of work per se but the implications for living standards, since if there was a significant rise in productivity and hourly pay this could more than offset a fall in hours. It is only if this does not happen that fewer working
hours would lead to a fall in average weekly earnings (or pay growth being far below the long term trend).

If productivity growth remains flat, we saw earlier that a UBI would not offer much of an answer, since its function is to redistribute whatever national prosperity there is. The case for the UBI would only arise if there was reasonable growth in productivity, which was feeding through into hourly earnings - but not to weekly earnings, because of the falling number of working hours. This would represent a fall in the labour share of GDP, as a result of declining hours (not the stagnant hourly pay discussed earlier). In this scenario the problem of declining hours of work is a reformulation of the problem of pay becoming decoupled from rising productivity, and a UBI funded by taxes on profits or wealth might be part of the solution.

An alternative concern would be an unequal redistribution of hours of paid work. If everyone’s hours declined by the same amount, but this was offset by rising hourly pay, then there might be little to worry about. But if the fall in hours was very unevenly distributed, a UBI might seem more attractive. People with prized skills could end up working long hours, even while the employment rate fell and increasing numbers of people were forced to work fewer hours than they wanted to.

This is one of the ways in which rising inequality in market incomes might occur (rising inequality in hourly remuneration is one driver of earnings inequality, but a more uneven distribution in the hours people work would be another). However, we already have a means-tested system designed to relieve the worst effects of such a reduction in working hours across the economy. And as we have seen, a UBI is unlikely to be more effective at reducing poverty. In other words, the egalitarian impact of a UBI might not be as significant in the real world as one might hope for on paper.
4. Alternative policy options

Part 3 showed that while the UBI can boast some advantages in responding to the five risks in the changing world of work, it is certainly not a silver bullet. So how do other social security reforms compare?

Universal Credit

Universal Credit (UC) is a new social security payment combining six previous in-work and out-of-work benefits and tax credits. It works by setting a maximum payment for households with little or no work, which is then smoothly and continuously withdrawn as household earnings rise. Its implementation has been plagued with operational difficulties which we do not address here.

UC has some of the disadvantages of traditional means-tested benefits, which UBI proposals intend to address. In particular, it is linked to a strict regime of work conditions and sanctions, and is ineffective at rewarding moves into work and increases in earnings (despite this being the goal of its architects). However, the main problem with universal credit is that it is paid at a very low rate. In the case of adults without children, the basic payment of £73 per week is far below subsistence levels and compares to £159 paid to pensioners. A UBI fixed at the level of existing benefits would not address this problem. Indeed, it make it harder to fix as any future increases in generosity would be much more expensive (and therefore costly for median earners).

As an in-work benefit, UC aims to tackle some of the same labour market problems as UBI. It offers a redistributive solution to pay stagnation, inequality and insufficient work by topping-up the earnings of people with low monthly pay and/or high living costs. In this sense it is a (less generous) successor to new Labour’s tax credits, which in the 2000s played a major role in reducing in-work poverty and supplementing stagnant wages. UC is proving far less successful at sustaining living standards because its value is being eroded over time, relative to earnings and GDP per capita (this is an example of means-tested benefits being more vulnerable to cuts than universal entitlements).

Tax credits played a critical role in the wake of the financial crisis, when total payments increased, as an ‘automatic stabiliser’, in response to a decline in hours of work and hourly pay. If this had happened under a UBI regime, tax liabilities would have fallen but benefit payments would not have increased. For every pound of earnings they lost, with UBI low income households would have seen a significantly larger drop in their disposable income (this is a mirror image of UC being less good at ‘making work pay’ when people’s earnings rise). This tells us that if there was a long-term structural decline in the real monthly earnings of low paid workers, UC would provide a better cushion than UBI.

Universal Credit is also much cheaper than UBI. This is very important if the two alternative policies are to be funded by the ‘closed loop’ of personal taxation, because it makes future increases towards a subsistence level more plausible and it means that less money would need to be raised from median earners (as we saw earlier, low and middle earners without
children are better off under UC than a fiscally neutral UBI). On the other hand if some external source of funding was available (eg a tax on profits or wealth) any given level of new revenue would fund a greater improvement in living standards for low and middle income groups if channeled through UC than UBI because the money would be spread less thinly.

Like UBI, universal credit is designed to be a solution to insecure work and this is its main advantage over the regime it replaces. If it is successfully implemented, UC payments will be paid continuously and adjust automatically as people move in and out of work or see their earnings move up and down. As people’s pay rises and falls real-time payroll information calculates monthly payments. This is similar to how net payments would automatically change under a UBI regime, as a result of rises and falls in monthly PAYE tax (in this, both schemes take something from the concept of a ‘negative income tax’, though UC is calculated on a household basis).

Since both systems smoothly withdraw out-of-work payments, they are each more generous to people working very low hours of work than the outgoing regime. This will mean greater financial security for people in precarious work. But it could result in them having weak incentives to work for longer, unlike under the outgoing system where there is a big prize in working 16 hours a week or more. In this respect UBI is superior to UC: people at least have a decent financial incentive to work each extra hour under a basic income (their extra earnings are just taxed at the same rate as everyone else’s); whereas under UC workers lose a minimum of 63 pence of every extra pound they earn.

This limitation in the design of UC has led the government to set a limit on UC support for self-employed workers with very low earnings (called the Minimum Income Floor) and to introduce a new and controversial system of ‘in-work conditionality’ for employees which requires people below a (high) earnings threshold to take steps to increase their pay or hours. This extends conditionality even beyond the tough existing system for out-of-work benefits. This returns us to the issue of skills and jobs dislocation. When it comes to people’s medium and long term employment, skills and progression, the question is whether condition-based payments with weak financial incentives to progress (ie UC) are more or less effective than unconditional payments with strong incentives (ie UBI). This remains a point of controversy, which can only really be resolved empirically.

Finally, it is important to recall that the proponents of apparently pure UBI schemes almost always bolt on something like UC to cope with housing costs (and sometimes more). Housing costs are both too high and too variable to support through a universal payment. In the real world, UBI campaigners reluctantly accept the need for well-designed means-tested social security.

**Contributory benefits**

Contributory benefits and UBI are both non-means-tested payments and unrelated to an assessment of living costs. As pensions they can look pretty similar, but before pension age
they are very different beasts. Contributory benefits are designed to respond to contingencies, while UBI is paid all the time with only taxation varying to reflect changing circumstances. And while UBI claims to (largely) replace the need for means-testing, contributory benefits always need to stand beside targeted benefits for poorer households (both those with and without work). Contributory benefits cannot guarantee a subsistence income for all; nor can they offer a solution for workers to pay stagnation, earnings inequality or insufficient work as entitlement is triggered by not being in work.

However in other respects, contributory benefits and UBI seek to address the same limitations of means-testing by offering support to people facing labour market risks which are otherwise poorly protected. Each provides money to people without work regardless of their savings or the presence of a working partner. Under our current contributory system this is available when a parent stops work to look after a new child, or when someone is unemployed or sick. Under UBI the net would be much wider. In fact, people out of work, for any reason, and not receiving means-tested benefits would be the main adult beneficiaries of the new system (both existing benefit recipients and existing income tax payers would see far less change to their finances).

Protecting people without work who are ineligible for means-tested support could be increasingly important if more people cycle in and out of insecure work and there is greater skills and job dislocation, particularly if this affects a wider group than just low income workers. There is therefore a strong and growing case for providing households of all incomes with insurance against these risks.

However, in the UK, contributory support before pension age has been in decline for decades (indeed, this may help explain increased interest in UBI). So an obvious response to the changing world of work is to strengthen the place of contributory benefits within social security. Unlike UBI, with contributory benefits this support is conditional on past contribution and is time-limited, condition-related and dependent on circumstances. But it is also much cheaper than UBI and attracts significant public support.

The Fabian Society report For Us All examined options for extending working-age contributory entitlements. The main possibilities explored are more generous payments, longer duration of payments, broader eligibility, and better employer-based statutory pay.

When thinking about insecure work, the top priority from this list is to relax eligibility conditions, since a very high proportion of unemployed people are ineligible for contributory JSA. Meanwhile, for people who will need to re-skill and change occupation the priority is to provide appropriate generosity, duration and conditions to maximise recipients’ long-term prospects. There is a good case for saying that today’s regime is too tough and pushes contribution-based recipients into the first job, not the right job. On the other hand, in the 1980s the system was too tolerant of people slipping into long-term unemployment. A balance should be struck on the basis of good evidence and it should not
necessarily be the same as for universal credit (for example contribution-based recipients could be permitted to enroll on a wider range of training courses). One of the advantages of establishing universal credit is that contributory JSA and ESA can be relaunched as tailored, standalone entitlements.

**Alternative universal entitlements**

When thinking about the changing labour market, we have seen that UBI has some interesting advantages as well as some significant downsides. One response to this is to seek to design universal benefits which fall short of a UBI, but have as many of the advantages (and as few of the disadvantages) as possible.

1. **A learning allowance:** With more skills and jobs dislocation across longer careers, policy makers should weigh up the economic case for providing a universal payment at subsistence levels for people without a job to participate in training or learning. Instead of being unconditional, like a UBI, a payment could be dependent on participation in high-quality, career-relevant further or higher education. In 2013 the IPPR proposed this approach for 18 to 21 year-olds (although they suggested a parental means-test to reduce the costs, replicating the system of FE grants in Wales - for older learners, such dependency arrangements would clearly not be relevant). Similarly, ministers could consider reviving grants for living costs for higher education (around half the price would be recouped by savings on the cost of subsidising student loans). A non-means-tested learning allowance would of course be a significant departure from today’s funding model for post-19 education. It would need to be justified by a detailed business case, examining benefits for individuals and the economy. But it would be much more targeted and cheaper than an unconditional UBI.

2. **Much higher child benefit:** Earlier we saw that the main beneficiaries of UBI are families with children. This begs the question whether it would be preferable simply to increase the value of child benefit, rather than take on the cost and controversy of introducing an adult UBI. For example previous Fabian Society research supported by the TUC and others found that doubling the value of child benefit over the course of the 2020s would eventually cost around £10bn per year (in today’s prices) and would lift half a million children out of poverty. Providing this additional support to parents, who have higher living costs and a greater need for income security, would help mitigate for them the five risks of the changing world of work: pay stagnation, insecure work, skills and jobs dislocation, inequality and insufficient work.

3. **Reforming tax allowances:** The UK’s very high tax-free allowances make this country’s UBI debate distinctive. As things stand, we already have a flat-rate system of support when looking at benefits and tax allowances together, and by 2020 the two main tax-free allowances will be worth £68 per week for workers earning enough to qualify. In effect we already have a basic income, but it is paid on a regressive rather than a universal basis. The Fabian Society report *For Us All* proposed replacing these tax-free allowances with new
credits paid to every adult. In effect this would be a small UBI, but presented as part of an integrated tax/benefit system on top of existing benefits. The model would work by gradually lowering the allowances and raising the new credit to leave no one worse off in cash terms (a much higher child benefit would be introduced as well). The overall cost of the new regime would be set to be the same share of GDP as the current tax allowance system and there would be no change to tax rates. As with a full UBI, the real incomes of workers without children on median earnings would fall, so it would not be a solution to stagnant pay but the scale and visibility of this change would be far smaller (as no one would be a cash looser). The chief attraction of this proposal is that it would be highly progressive, because it would represent a phased transfer from workers earning more than the current income tax personal allowance to people not working or with low earnings (therefore helping to deal with the risks of insecure work, skills and jobs dislocation, inequality and insufficient work). Unlike a UBI it would be paid on top of universal credit, so would significantly boost the incomes of low income non-working households. For any egalitarian searching for a practical means to ensure that everyone has a subsistence income, this is a far better solution than any UBI designed to replace some or all of universal credit.
5. Conclusion

The debate on Universal Basic Income has become unhelpfully polarised between noisy and passionate advocates ‘for’ and ‘against’ the policy. This paper shows that the reality is much more messy. When thinking about risks arising from the future world of work, a UBI has some advantages over the current social security and tax system, but also a range of drawbacks. And in many cases, other more practical tax and benefit reforms offer different or better solutions.

The reality is that even the most prominent proponents of UBI do not really call for a pure basic income. The models proposed continue to rely on means-testing (at least for housing costs) and promise payments that are far below an acceptable minimum income, of the sort that the UK’s pension system offers. Their plans are less radical than they appear, particularly when you remember that the UK tax allowance system already amounts to a basic income of sorts. And the evangelical tone of UBI campaigners masks the fact that their own reports often expose the limitations of fully-fledged basic income proposals.

Importantly, this is not just a debate between pragmatists versus idealists, although public attitudes to tax and social security conditions are always relevant. The problems of a full basic income are intrinsic to its design (unless it is funded from sources external to household wages or consumption). The high cost of a true UBI would place a heavy burden on middle earners, crowd-out other valuable public expenditure and perhaps even suppress economic growth. And because of this a full UBI, funded from personal taxes, is an implausible route to securing a large and sustainable increase to the incomes of the poorest in society, or for addressing all our five labour market risks.

On the other side, however, as the UBI sceptics mount their defence against the impossibility of a full-scale UBI, they fail to acknowledge that the proselytisers are nearer to them on policy detail than they are on lofty rhetoric. For example, many strong critics of UBI within the social policy community are also keen advocates of universal entitlements, which embody strands of the UBI idea. At the moment the UBI debate is generating more heat than light, but perhaps if the protagonists sought to discover what unites rather than divides them, it might lead to a new appreciation of both universal and contributory entitlements as a response to labour market risks.

No one can be sure how the labour market will evolve over the coming decades. But the evidence suggests we must at least prepare for the five risks identified in this report: stagnant pay, insecure work, skills and jobs dislocation, rising inequality and insufficient work. The debate on UBI helps to clarify the choices and challenges that policy makers face, and it forces us to think big picture and long term.

In practice the response to these challenges will not come from a single policy, whether it is UBI or anything else. The answers will lie in multi-layered reforms to our tax and social security system with tiers of financial support working in combination: universal as well as means-tested; unconditional as well as conditional; non-contributory as well as contributory. Along the way, these reforms should embrace elements of the UBI idea – and modest, partial
basic incomes may have their place in the eventual toolkit. But a fully-fledged UBI is not the silver bullet for our future labour market.
Appendix

Arguments for a Universal Basic Income

- Society provides a subsistence income for all, as a fundamental right
- Employment and progression always (visibly) pay, with consistent, low marginal tax rates and no risk of disruptions to income
- Public interference in the operation of markets and people’s lives is minimised
- National income can be better distributed, in the context of economic dislocation and a decline in the share of GDP going to wages (e.g., globalisation reducing pay; automation reducing jobs; casualisation; increasing job churn)
- There is a ready-made mechanism for stimulating economic demand if required (‘helicopter drop’ payments)
- Low earners benefit the most (and they are a group that attract public support)
- Women benefit, as each adult in a couple has economic independence and recognition
- The intrusiveness, administrative burden and human costs of benefits (sanctions, low take-up, anxiety etc) virtually disappear
- When all are beneficiaries there will be less negative attitudes to out of work recipients and the conditions they should meet
- Strong incentives for fraud (i.e., not reporting work or cohabitation) are replaced by a financial reward for these positive choices
- People can choose to spend time caring for children and relatives, for creativity and civic life
- People have space to find more productive, rewarding work (business startups, longer job-search periods) and have more workplace bargaining power

Arguments against a Universal Basic Income

- The country would make a fundamental shift away from established and supported principles of social insurance (linked to contribution) and of lifecycle distribution (linked to changing needs)
- There will be entitlement cuts for some, and higher marginal tax rates for others, under any cost-neutral scheme (higher marginal rates in turn reduces the capacity to raise taxes for other purposes)
- There is no financial gain for people out of work. Poverty is unlikely to fall (at least in the first instance – it might if employment participation were to rise)
- There are no conditions relating to work or training, so the system is tolerant of long-term joblessness. This harms life chances and is resented by the public as ‘free-riding’.
- Single adults, including lone parents, are penalised as personal payments don’t take account of economies of scale for couples
The responsibility of employers to pay wages that reflect living costs could be undermined (workers are prepared to ‘settle’ for less; the political salience of minimum wage undermined).

Complex means-testing will still be required to meet the extra costs of housing (otherwise a BI treats unlike households alike and/or is unaffordably expensive).

Intrusive capability assessments will still be required, unless disabled people are to be denied extra support to reflect their higher needs and/or lower earning potential.

The cost of annual uprating is very high, suggesting a BI could lose value over time and fail as a safety-net.

Reproduced from appendix 7 of A For us all: redesigning social security for the 2020s (Harrop, A, Fabian Society, 2016)
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