

# Tackling Poverty: the power of a universal basic income

Howard Reed, Stewart Lansley, Matthew Johnson, Elliott Johnson and Kate E. Pickett



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By Howard Reed, Stewart Lansley, Matthew Johnson, Elliott Johnson and Kate E. Pickett.

## About the authors

**Howard Reed** is director of the economic research consultancy [Landman Economics](#), which specialises in policy analysis and complex econometric modelling work with a progressive political perspective. Recent clients include the Scottish and Welsh Governments and the Northern Ireland Executive, trade unions, charities, campaigning organisations and academia.

**Stewart Lansley** is the author of the [The Richer, the Poorer, How Britain Enriched the Few and Failed the Poor](#), a 200-year history, 2021, Bristol University Press. He is a visiting fellow at the University of Bristol, a Council member of the Progressive Economy Forum and a Fellow of the Academy of Social Sciences.

**Matthew Johnson** is Professor of Politics at Northumbria University. He has written on the prospective health impacts and political implications of Universal Basic Income for the left. [Find more here.](#)

**Elliott Johnson** is an Associate Senior Research Fellow at Northumbria University. His work focuses on the biopsychosocial mechanisms through which hierarchies and welfare systems affect health and how Universal Basic Income as an upstream policy intervention can address these issues. [Find more here.](#)

**Kate E. Pickett** is Professor of Epidemiology at the University of York. She is a Fellow of the RSA and the UK Faculty of Public Health. She is co-author, with Richard Wilkinson, of *The Spirit Level*, chosen as one of the Top Ten Books of the Decade by the New Statesman, winner of Publication of the Year by the Political Studies Association and translated into 23 languages. She is a co-founder and trustee of The Equality Trust. [Find more here.](#)



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We are extremely grateful for that support and faith and hope that this report adds to the body of knowledge on social determinants and policy instruments by which to address the adolescent mental health crisis. This report stemmed from collaboration between a large number of colleagues, including (in alphabetical order): Richard Cookson, Christodoulos Kypridemos, Alice Mathers, Daniel Nettle, Martin O'Flaherty, Fiorella Parra Mujica, Aase Villadsen and Hannah Webster.

We are extremely grateful for all of the team's work, collegiality and support, especially given the pandemic and various other challenges.



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[info@basicincomeconversation.org](mailto:info@basicincomeconversation.org)

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## **About the Basic Income Conversation**

The Basic Income Conversation is an initiative, powered by Compass, to promote the idea of a universal basic income in the UK. We work with people across civil society to understand the opportunities, questions and concerns around basic income. We help organisations decide if they should add basic income to their policy toolkit and look at how it fits alongside other big policy reforms. We work with researchers to ensure the basic income debate is informed by research. We help coordinate a growing network of cross-party politicians and activists to put basic income at the top of the political agenda.

## **About Compass**

Compass is the pressure group for a good society, a world that is much more equal, sustainable and democratic. We build alliances of ideas, parties and movements to help make systemic political change happen. One strategic focus is on policy ideas that are rooted in real needs now but which have transformative potential. Introducing a universal basic income is one such policy and speaks to every element of the good society we want to create by providing more freedom, independence, time security and sense of citizenship. This is our third report on basic income and shows how a desirable and feasible scheme could be implemented. The next stage is to build a national coalition in support of a basic income.

# About the project

This work was funded by the Wellcome Trust as part of a wider project entitled 'Assessing the prospective impacts of Universal Basic Income on anxiety and depression among 14-24-year-olds'. This serves as a pilot study for our much broader interest in the [health case for universal basic income](#), (UBI).

The project commenced in August 2021 and its findings will be presented in 3 reports. This first report presents the results of a study of the distributive impact of 3 different models of UBI. Its findings will be used in the next phase of the study to assess the impact of UBI payments on mental health among young people.

This report is a counterpart to a second Compass publication '*Winning the vote with a universal basic income.*' That report examines public perception of UBI, with a specific focus on health, within the crucial 'red wall' seats lost by Labour to the Conservatives in the 2019 General Election. The findings suggest consistently high levels of support, c.75%, for UBI. Especially when the policy is presented to voters in terms developed by strong opponents of the policy. We find little evidence of voters' bearing conservative social values that preclude radical socioeconomic policy. Rather, those voters display a firm awareness of the need for radical reform and recognise the need for redistributive policy. These findings provide context and support to the findings we present in this report. The redistributive outcomes modelled herein have the potential to be endorsed by those who are likely to benefit most, those in left behind communities in Labour's former heartlands.

These two reports show that a UBI, even at a modest level, is a powerful tool for dealing with several current and coming social and economic faultlines, and especially for cutting poverty and inequality. For these reasons, it could also be a key means by which Labour, in particular, can re-engage with its traditional voters.

The final report to be published by the Royal Society of Arts at the end of August 2022 will set out the full findings of the final stage of the project and the mental health impact of a young person's UBI. This will also provide new understanding of the potential longer term dynamic effect of a UBI.

# Summary

This report examines the distributive impacts of three UBI schemes which raise the income floor to different heights, and are broadly designed to provide a potential pathway to attainment of the Minimum Income Standard, MIS. The first is a starter scheme to provide an entry payment; the second an intermediate scheme and the third a full MIS payment to which increases in less generous schemes can be aimed over time. We use microsimulation of data from the Family Resources Survey to outline the static distributive impacts and costs of the schemes.

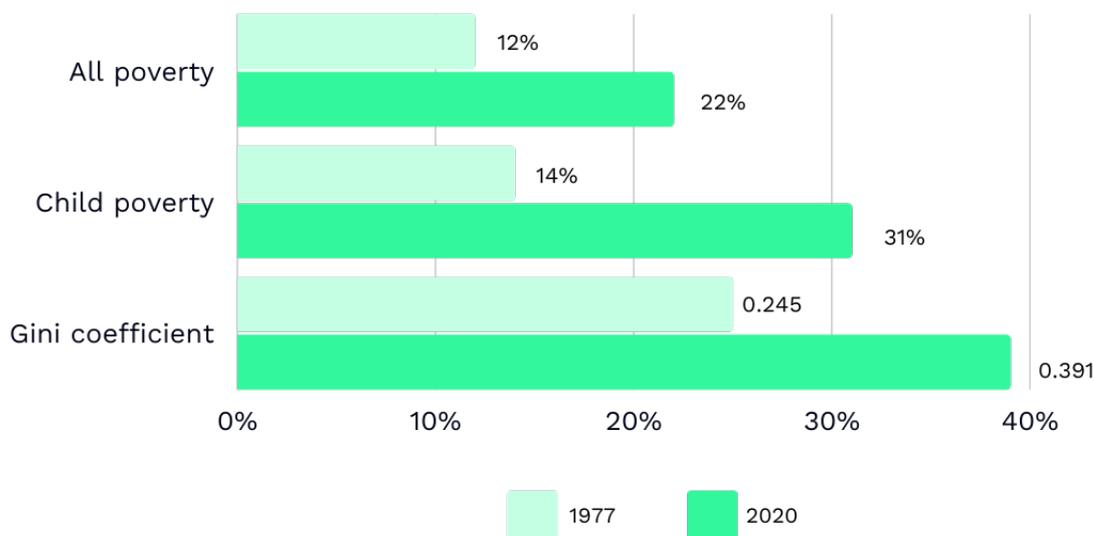
Our key finding is that a modest, fiscally neutral, scheme has the capacity to cut child poverty to an historic low, below the low point achieved in the late 1970s, thus achieve more than the anti-poverty interventions of the New Labour Governments from 2000. Even a modest scheme would significantly improve the living standards and life chances of millions of people and, despite the claims made by some critics of UBI, would be both feasible and affordable. This helps to answer central practical criticism of introducing a basic income, that the payment levels are either too small to make much difference or too generous to be affordable.

# Introduction – Britain’s in-built bias to inequality

There is much talk of building a better post-Covid society.<sup>1</sup> But there are few details about what this would mean and how it could be achieved. One of the key measures of success must be a significant reduction in Britain’s extreme levels of inequality and poverty.

Over the last four decades, Britain has moved from being one of the most equal of rich nations to the second-most unequal (after the United States).<sup>2</sup> The same period has also seen a surge in levels of poverty, with the child poverty rate more than double that of the late 1970s (Figure 1).

**Figure 1: Trends in poverty and inequality, 1977-2020<sup>3</sup>**



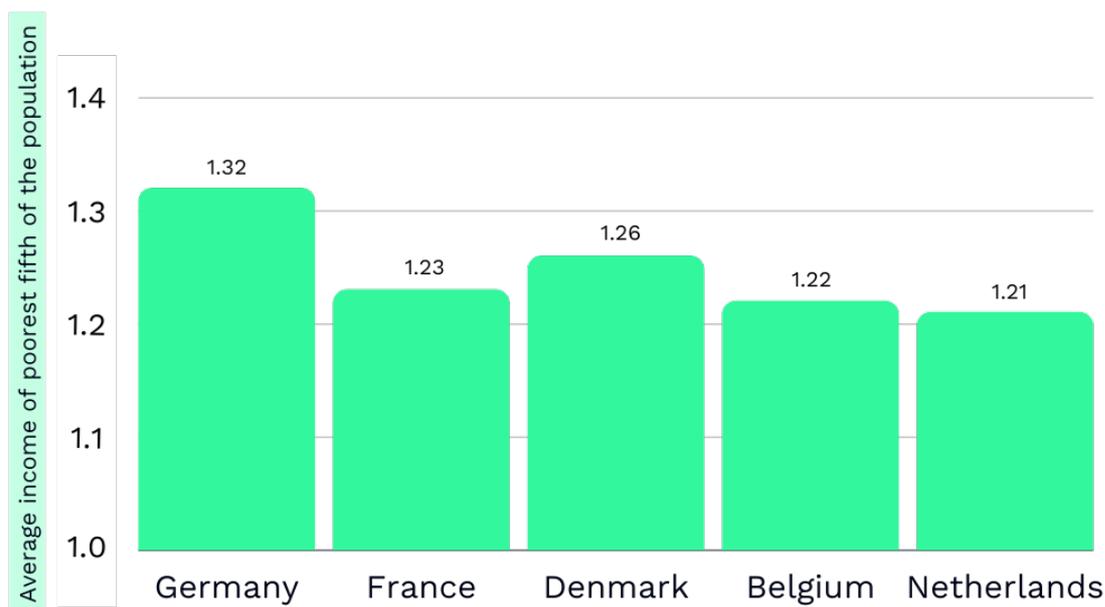
Poverty is relative poverty (measured as the proportion of individuals in households falling below 60% of median net household income) after housing costs.

The Gini coefficient is a summary measure of inequality (where 0 is complete equality and 1 complete inequality). This is the Gini for household net income (after housing costs).

For the last 40 years, Britain has been running a real-life experiment involving a much higher degree of economic inequality. The architects of this experiment maintained that a stiff dose of inequality was necessary to boost prosperity from which all would benefit. The Conservative Party, in particular, believed that reducing the tax burden on the wealthy would stimulate economic activity that would trickle down to improve the welfare of those in all subsequent strata of society.<sup>4</sup> From the early 1980s onwards, it became the conventional wisdom that there was a trade-off between greater equality and economic efficiency. We now have the evidence of that experiment. This shows that inequality at today's much higher levels has been a self-destructive strategy that has imposed unnecessary and damaging costs on the economy, individuals and society.

Several studies have shown that higher inequality has created brittle economies that are especially prone to turbulence and weak growth.<sup>5</sup> Reducing the share of national income at the bottom and raising it at the top has also been the principal cause of the surge in relative poverty shown in Figure 1. Britain has witnessed a steady rise in social fragility with significant consequences for life chances, household security, and social resilience.<sup>6</sup> It now has more food banks than branches of Greggs. Its benefit system has become increasingly mean, patchy and punitive, and less generous than most other countries in Europe. Because of the impact of inequality and the low level of benefits, the poorest fifth of Britons are today much poorer than their counterparts in other, more equal nations. Germany's poorest fifth, for example, are a third better off on average than those in Britain (Figure 2).

**Figure 2: Average incomes of poorest fifth in other countries compared with Britain, 2018, Ratio: Britain = 1**



Calculated from OECD, Better Life Index, 2018. Incomes across countries have been adjusted to allow for differences in purchasing power.

Britain has become a country with a built-in political and economic bias to inequality. It offers a limited degree of social protection, with many of the costs of social and economic change steadily transferred from the state and corporate sector to individuals. In recent decades the negative impact of a series of rolling shocks – from rapid deindustrialisation, weak wage growth and the 2008 financial crisis to a decade of austerity and now Covid-19 – have have been borne most heavily by the most vulnerable and lowest income citizens in a way which has intensified this bias.

## Health inequality: prevention and the mental health crisis

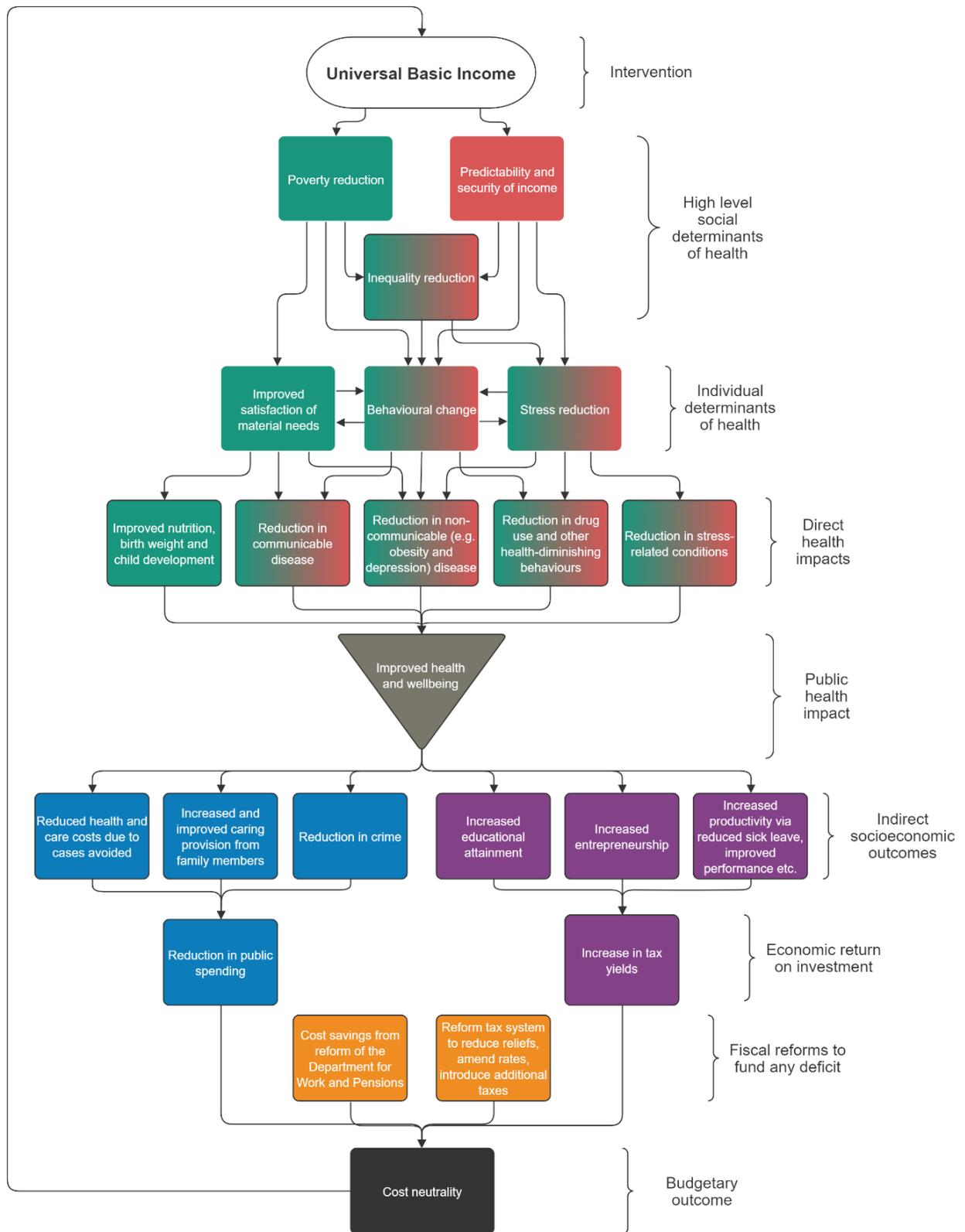
One of the most important effects of growing inequality has been on the gap in health outcomes between richer and poorer regions and citizens and on the level of well-being. The 2010 Marmot Review found that, in England, 1.3 to 2.5 million years of life and 2.8 million years free of illness or disability were being lost annually due to health inequalities.<sup>7</sup> Conservative estimates of cost amounted to £21-33bn in lost productivity and tax, £20-32bn in welfare and £30.5bn in health spending. The Department of Health found in 2011 that long-term health conditions, many of which are

related to the pathways below, affected more than a quarter of people in England and accounted for 70% of NHS spending.<sup>8</sup> The Health and Safety Executive found, in 2019/20, that stress, depression or anxiety alone accounted for 51% of all work-related ill health cases and 55% of all working days lost to these.<sup>9</sup> These incidences are unequally distributed both within and between regions. The Government's Levelling Up White Paper highlights a number of shocking consequences: people in the least deprived decile areas of the UK have life expectancies almost a decade longer than those in the most deprived areas; even locally, there are differences that mean that those in neighbouring wards can expect up to 12 years' difference in duration of good health.<sup>10</sup>

Those at the bottom of society face overwhelming health challenges that stem directly from their being poorer, from income insecurity and from their exposure to inequality in their everyday lives. Not only do they have fewer resources to satisfy their basic needs for nutrition, sleep and shelter, they are also aware that those above them in hierarchies have the capacity to remove those resources. The rise in in-work poverty – compounded by the squeeze on benefit levels and public services – has contributed to crises in health.

The pandemic has only exacerbated health inequalities.<sup>11</sup> It has hit the lowest socioeconomic groups hardest, including many people who work.<sup>12</sup> Our research with GPs has shown that it is often those in work who face stress-related ill-health.<sup>13</sup> The Whitehall II Study of Civil Servants demonstrates that it is inequality, not absolute poverty, that damages health for most. Those in low-paid work are also often least able to find time to engage in healthy behaviour or receive effective treatment to recover from ill health.<sup>14</sup>

**Figure 3. Model of impact for UBI and health<sup>15</sup>**



For young people, there is an unprecedented crisis in mental health. Those aged 14-24 face severe mental health challenges in comparison both to other age cohorts and previous cohorts, with rates of depression rising sixfold from 1995-2014 and 164% from 2005-2015,<sup>16</sup> despite reductions in smoking, drinking and drug use. The reasons for this crisis lie in deteriorating social determinants of health: income levels influence access to decent housing and health care; predictability of income influences the extent to which individuals invest in long-term interests, and experience of inequality influences levels of stress. Young people's life chances have been affected critically by the Global Financial Crisis of 2007/2008, subsequent deep austerity policies, a global pandemic and a general chipping away at a sense of opportunity. Put simply, this cohort of young people may be the most vulnerable since the Second World War.<sup>17</sup>

The consequences of not dealing with this crisis are profound, both for individuals and society. Adolescent experiences have life-long consequences for individuals in health, wealth and other outcomes. For society, the Mental Health Foundation has estimated that mental health problems cost the UK economy at least £118bn a year.<sup>18</sup> Never has the case for prevention been clearer and never has there been a better case for boosting both levels and security of low incomes.

The evidence shows that higher incomes are associated with better health, especially mental health, and well-being, while the current benefit system – a mix of means-tests, conditionality, stigma and uncertainty about whether support will be withdrawn – is known to be associated with poor mental and physical health. Marmot is clear that such inequalities cannot be addressed by focusing solely on the poorest.

Our model of impact (Figure 3) suggests that a universal basic income (UBI) can play an important role in overcoming these problems. Indeed, cash transfer systems with similarities to UBI have been shown in limited trials to have real health benefits. One of the key findings of the Finnish 2-year trial of an unconditional scheme for a group of 2000 unemployed launched in 2017 was a significant improvement in wellbeing including less financial stress and depression, without affecting work incentives.<sup>19</sup> Indeed, the Welsh Government has committed to a trial of basic income for Care Leavers to commence in July 2022 in part because of this prospective impact. That pilot will assess the public health and economic justification for cash transfers and provide policy makers with tangible evidence around which to shape schemes. However, as policy makers consider means of addressing myriad economic, health and social issues, and in the absence of representative, randomised controlled trials in the UK, there is genuine need for modelling to provide evidence on the impact of UBI schemes.

This study seeks to establish the extent to which different models of UBI, which raise the income floor to different heights, might close the mental health gap and lower the cost to society of health care via improved average health outcomes. In the absence of representative, randomised controlled trials in the UK, this report builds on earlier Compass modelling to provide evidence on the impact of different UBI schemes. A later report, published by the Royal Society of Arts, will link these findings to the impact on mental health among young people using a combination of citizen engagement research and health modelling based on the economic modelling contained within this report. This represents the most substantive attempt yet to assess the dynamic impact – if in a limited way – of a UBI scheme, and the greater income security it provides.

Why, though, can these issues not be addressed through the current benefit system?

## The flaws of the existing benefit system

This present system has failed in its basic task of shielding people in a more turbulent economy rocked by rolling shocks and growing insecurity. This is particularly true for those of working age.

Originally designed for a world of full employment, jobs for life, buoyant wages and secure work, Britain's benefit system is ill-suited to today's economic model of extensive low pay, insecure and often intermittent work for a growing minority of the workforce. The system is light years away from the model of universalism and entitlement originally set out by Sir William Beveridge in 1942, and now comes with an extreme level of conditionality, punitive sanctioning and a greatly eroded principle of entitlement.<sup>20</sup> In the decade leading up to the outbreak of the pandemic, more than 5 million sanctions were issued against benefit claimants.<sup>21</sup> Sanctions were suspended during lockdown but have now been reinstated and tightened further still, leading to a further rise in the extent of state coercion.<sup>22</sup>

Benefit levels are mean compared with other rich countries and have been further weakened by a decade of austerity. The real level of child benefit has fallen by a quarter over the last decade, while the main adult unemployment payment has been falling steadily as a share of average earnings and is now worth proportionately less than at any time since 1948.<sup>23</sup> Even before Covid-19, millions fell through what is an imperfect, ungenerous and patchy benefit system.

Over time, the system has become increasingly dependent on regular and now mass means-testing. Although income related benefits may have an important role to play in supporting those with particular needs, today's 'hyper means-tested system'<sup>24</sup> requires complex and often intrusive administration, imposes a cap on individual progress and has contributed to rising levels of personal stress. Means-testing also fails to ensure income security despite being a vital determinant of well-being,<sup>25</sup> and carries a very different message from universalism, not of entitlement, but of dependency. With regard to needs-testing used for disability and health-related benefits, there is evidence that the conditionality and extreme scrutiny now inherent in the welfare system has resulted in substantial disincentives to healthy behaviours.<sup>26</sup>

Low benefit levels and the ending in the 1980s of the post-war progressive tax system have together contributed to the weakening of the social safety net against poverty.

It is now widely accepted that the present system needs radical reform. In this the 80<sup>th</sup> anniversary year of the 1942 Beveridge Report, there has been a flurry of calls for a new Beveridge plan.<sup>27</sup> Public attitudes towards benefit recipients – harsh through the austerity decade – have become a little more sympathetic.<sup>28</sup> Some thinkers on the right are showing concern about the adequacy of the system of social protection, and its failure to prevent the long-term hike in the risk of poverty. The soft-right think tank, Bright Blue, has set up a commission to review the existing social security system, while another, ResPublica, launched a 'Conservative anti-poverty month' in June 2021.<sup>29</sup>

A system so heavily reliant on low benefit levels, mass means-testing and state-imposed coercion is always going to leave gaps and vulnerabilities and its faults have been exposed by the impact on household incomes arising from the pandemic. If a basic income scheme had been in place at the start of the coronavirus outbreak, it would have provided a simple, comprehensive and immediate mechanism for mitigating the shock waves from the virus (see appendix C).

## A guaranteed, non-means-tested Universal Basic Income

Building a fairer and more resilient society means ending the current bias to inequality. This cannot be achieved by tweaking. It will require the kind of transformative politics of change initiated by the Labour Government of 1945. One of the important characteristics of the post-war social

democratic experiment was the creation of a number of pro-equality instruments. These instruments – a more comprehensive system of social insurance, free health care, family allowances (later merged into child benefit), a progressive tax system – all contributed to the process of equalisation, and the peak equality and low-point for poverty achieved in the period post-1961 (there is no comparable data before 1961).

Tackling today's embedded economic divisions requires a number of new pro-equality instruments. This report looks at one of those potential instruments – the introduction of a robust, guaranteed, non-contributory, non-means-tested universal basic income (or a basic income floor). This 'floor' would sit under the current benefit system and create for the first time an effective income 'Plimsoll Line', below which no-one would fall.

The idea of a firm and guaranteed income floor draws on the principle of an entitlement to a 'national minimum of civilised life' promoted by Beatrice and Sidney Webb before the First World War.<sup>30</sup> While the post-1945 model of social security set out to build just such an 'income floor', the system introduced was far from free of holes and despite decades of change, Britain has never come close to achieving such a floor.<sup>31</sup>

Aimed at guaranteeing a no-strings-attached minimum, secure income for all eligible residents as of right, a UBI would involve a profound revolution in the way income support is delivered. Depending on its level, it would replace some existing benefits, though parts of the existing system would remain even at the higher rates of basic income examined. These would include, for example, disability, maternity and housing benefits, albeit likely with significant, co-produced reforms to address the existing problems discussed above. Eligibility for the basic income would be based on residency. Payments would go to UK residents, with legal migrants entitled after an agreed minimum number of years of residence.

The idea of a basic income has a long heritage, and while it has mostly stayed marginal to the social-policy debate, interest in the idea has been rising in the UK social and political agenda in the last few years. The reasons for this include people's recognition of the impacts of poverty, inequality and insecurity in their lives and increasing awareness of a number of trials around the globe.

In the UK, the last 2-3 years has seen a growing basic income social movement, with the launch of 40 citizen-led local pro-UBI hubs, and 30 local councils declaring interest in running trials. More than 500 leading public figures called for an emergency basic income as a response to the Covid-19 crisis<sup>32</sup> while the *Financial Times* has called for a national debate on its merits.<sup>33</sup> A UBI scheme is backed by the Green Party, the Liberal Democrats, and, at least in principle, the SNP. However, it has yet to gain

support from the present Westminster government, while Labour's Westminster front bench has appeared to reject the 2019 Manifesto commitment to trial UBI. Perhaps the most significant move has been the Welsh Labour Administration's announcement of a pilot basic income scheme. This will apply to all young people leaving care who turn 18 over a 12-month period. The trial will start in summer 2022 and is expected to cover some 500 people. Participants will receive a £1,600 monthly basic income for three years.

There are strong arguments for reform through the introduction of a UBI even at modest levels.

- It would help shield households, especially those of working age, from the emergence of a more insecure and fragile economy, growing uncertainty about work, livelihoods and living standards and a sharp rise in in-work poverty.<sup>34</sup> The UK's labour market has seen rising numbers trapped in low-paid, low-value, unsatisfying jobs, with few if any prospects of improvement. Pay volatility is now 'the norm, not the exception', and is particularly acute among the lowest paid.<sup>35</sup> By cushioning citizens from today's great winds of change, a universal basic income would be an effective anchor for tackling growing economic risk and a much more precarious and fast-changing work environment.
- Uncertainty has also been fuelled by the much-debated question of the impact of the 'new machine age'. Although the likely impact of the robotic revolution – from 3D printing and algorithms to driverless cars and machine-driven journalism – is unlikely to cut the total number of jobs, it is bringing further job upheaval with the risk of an ever more polarised workforce as, in particular, middle-paid jobs are displaced by poorly paid ones. Nevertheless, the proposals set out in this report are desirable whatever the future impact of the new technology.
- It would boost the universal element of income support and end much of the existing system of policing and sanctioning.<sup>36</sup>
- A universal basic income also has the potential to do much more than help fix a broken system of social protection. One of its galvanising forces has been its potential to bring new empowerment to individuals and households. Central to a universal basic income is that it is non-prescriptive: it would offer greater personal autonomy and flexibility between work, leisure (not to be confused with idleness), education and caring. Some might choose to work less or take longer breaks between jobs. A universal basic income would help encourage entrepreneurialism and risk-taking, with some incentivised to start businesses. Some might take time to retrain, while others might devote more time to leisure, personal care or community

support. Such a boost to flexibility has the potential to produce more social value, if currently unrecognised and often unpaid, than some existing paid work.

- A universal basic income would provide financial support for the mass of unpaid work – from childcare to voluntary help – disproportionately undertaken by women.
- While advocates have proposed different models, offering different degrees of radicalism and feasibility, progressive advocates view such a scheme as a way of promoting greater equality of citizenship. They see it as a profoundly democratic and egalitarian concept, based on a recognition that all citizens have the right to some minimal claim on national income. They are also clear that a basic income must be seen as a supplement to the wider public provision of services and not as a substitute as proposed by some Right-of-Centre supporters.

Despite these merits, the idea of a UBI – like the national health service, child benefit and the national minimum wage before they were implemented – remains controversial and divides opinion, though some former critics, such as the Joseph Rowntree Foundation, are now taking a more considered approach.<sup>37</sup>

Some objectors – often equating non-working with idleness rather than unpaid volunteering or leisure – claim that an unconditional BI would undermine the incentive to work. This argument has long been used to drive benefit rates down. Yet a study of the benefit sanction regime concluded that, far from getting jobless people into work, it was more likely to push them into poverty or ill-health.<sup>38</sup>

A UBI is non-judgmental. It would end the current policy of state coercion exercised through sanctions. All adults of working age would enjoy greater freedom of choice over whether to work and what sort of jobs to take and this would, over time, change the balance between paid work and other forms of activity in favour of individual preferences in a way that would bring important social and health gains. Under a scheme with modest payments, work incentives are likely to be boosted for many. Under the more generous schemes, the pattern of work incentives may change. Most are likely to continue to work in some form, but more individuals may choose to opt out of bad working conditions, or stop work altogether, to work shorter hours, or to take regular breaks.

Other critics question whether introducing a universal basic income scheme would be *feasible* and *affordable*. One study by Luke Martinelli, for example, has argued that ‘an affordable basic income would be inadequate, and an adequate basic income would be unaffordable’.<sup>39</sup>

The feasibility and cost of implementing a universal basic income scheme depends ultimately on its plumbing. The Box below sets out the desirable criteria for the establishment of a UBI.

***Criteria for a feasible and progressive UBI***

It should:

- be paid to all permanent residents, without condition
- raise the incomes of the poorest and reduces the gap between the top and bottom, thus lowering the level of poverty and inequality
- be high enough to make a material difference to people's lives
- raise the level of universality in the social security system, thus reducing reliance on means-testing
- be affordable
- minimise losses for low-income households
- minimise the amount of disruption involved in moving to a new system of income support
- enjoy broad public support

# This study

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There have been several studies of how a UBI might work in practice.<sup>40</sup> This study examines three UBI schemes, with three key aims. First, to test two repeated criticisms: that a UBI would be unaffordable, and have too little impact for its cost. Second, to test their effectiveness in meeting what should be a key goal of social policy – a reduction in Britain’s unacceptable levels of poverty and inequality. Third, to provide three base models that can be subsequently used for measuring the health impact of UBI schemes of different generosity.

Using the Landman Economics micro-simulation, tax-transfer model (appendix A), the report outlines the distributional impact of each scheme, their gross and net costs – and how these could be met – and their impact on poverty, inequality, the level of means-testing and incentives. These results tell us the immediate, *static* impact of a universal basic income scheme, and do not test the longer term, *dynamic* impact from behavioural change and wider social gains, and whether such impacts would strengthen the case for a universal basic income, including its affordability.

The next stage of the study will examine one example of a UBI’s potential dynamic effect – the impact of schemes on the mental health of 14- to 24-year-olds. This later stage of the study will provide an important indicator of the potential medium-term mental health benefits for the young from guaranteed and regular cash payments. These results will be compared with other evidence which suggests that these health gains rise with improvements in income levels, including those related to mental health.<sup>41</sup>

## Three models of UBI

The weekly payments for the three possible models are shown in Table 1. The results assume that the UBI scheme would be introduced in the 2022/23 tax year.

**Table 1: UBI payments by household type for models 1, 2 and 3**

	Model 1: A modest scheme		Model 2: An intermediate scheme		Model 3: A full scheme	
	weekly rate	annual rate	weekly rate	annual rate	weekly rate	annual rate
A child	£41	£2132	£63	£3276	£95	£4940
Single adult under 65	£63	£3276	£145	£7540	£225	£11,700
Single adult over 65	£190	£9880	£190	£9880	£225	£11,700
Couple under 65	£126	£6552	£290	£15,080	£450	£23,400
Couple with one child	£167	£8684	£353	£18356	£545	£28,340
Couple with two children	£208	£10,816	£416	£21,632	£640	£33,280

**Model 1** is a modest ‘lower level’ scheme and has been designed so that it is very close to being fiscally neutral in static terms. That is, it involves no additional calls on the public finances and no net increase in taxation: the cost of the extra payments would be exactly offset by the extra revenue from internal changes in tax rates and National Insurance Contributions (NICs). It is similar to the Compass starter UBI scheme that achieved a basic minimum with highly progressive distributive outcomes, but with improved outcomes.<sup>42</sup>

**Model 2** is an intermediate scheme set at the mid-point between the lower and higher levels. This will also enable linear comparison of impacts.

**Model 3** is a higher level scheme designed so that payments are high enough to ensure that all families reach the Minimum Income Standard (MIS). This is the income needed by different types of households to reach a socially acceptable living standard. It was developed by the Centre for Research in Social Policy (CRSP) and is designed to show ‘what UK households need today in order to have a decent living standard, considered the minimum by the general public.’<sup>43</sup>

# Model 1: A Modest Scheme

This model would be grafted onto the existing system and would sit as a lower tier below it. It would leave much of the existing system intact, thereby limiting the level of disruption. The weekly rates of £63 for adults under 65 and £41 for children would, for example, pay a significant, unconditional, annual £10,816 for a family of four, and bring a new level of certainty about their income flow, just as child benefit does now. The key elements and changes compared with the existing system are set out in Table 2.

**Table 2: Elements of Model 1**

Model 1: Elements	
Weekly payment levels (tax free)	<p>Adult aged 18–64: £63</p> <p>Child aged 0–17: £41</p> <p>Adults 65+: £190</p>
Changes to existing benefit system	<ul style="list-style-type: none"> <li>For each benefit unit*, part of the basic income is disregarded for the purposes of calculating means-tested support (Universal Credit, Pension Credit and any other legacy benefits). The value of the disregard is £20 times the number of people in the benefit unit. So for a single adult with no children the disregard is £20, whereas for a couple with 3 children it is £100. This ensures that adults and children in low-income families gain something from the introduction of the basic income.</li> </ul>

	<ul style="list-style-type: none"> <li>• The payment above this disregard is counted as income for the calculation of other benefits. The effect of the disregard is to raise lower net incomes by more than without it. If the whole of the payment was counted as income for means-tested benefits, the net cost would fall and the income gains at the bottom would be lower.</li> <li>• Child benefit and the existing state pension are abolished.</li> <li>• The existing state pension of £185.15 per week is converted into an unconditional flat rate ‘citizens’ pension’ of £190 per week.</li> </ul> <p>With the new pension scheme abolished, eligibility for the state pension would become automatic for citizens above the state pension age, rather than conditional on an adequate contributions record as at present. This would raise the income of those with incomplete contribution records, mostly women, and the group most vulnerable to pensioner poverty.</p>
Changes to tax system	<ul style="list-style-type: none"> <li>• Income tax personal allowance is reduced to £750 per year. Retaining a small allowance ensures that those undertaking small one-off jobs don’t have to fill out a tax form.</li> <li>• Current income tax higher rate threshold stays at £50,270 gross income.</li> <li>• Existing income tax rates are raised by 3p taking them, in England, to 23p, 43p and 48p.</li> <li>• The employee NICs primary threshold is reduced to £20 a week (so NICs are payable on all earnings) and the rate of employee NICs is set at 13.25 % for all earnings above the primary threshold. NI contributions for the self-employed are equalised with employees at 13.25% (currently 9%).</li> </ul>
Implementation	It is assumed that the model is introduced in 2022/3. The scheme could be implemented in one go or phased in over time in steps.

\*A benefit unit refers to a subset of a household, consisting of a single adult or a married or cohabiting couple and any dependent children.

Model 1 involves two broad sets of changes to the existing tax and benefit system. First, there is a guaranteed set of payments which provide an income floor. Second, a series of tax adjustments raise the additional income needed to pay for the weekly universal basic income while making the tax system more progressive. The tax changes involve the lowering of the personal allowance to £750, a rise in existing tax rates of 3p in the pound, and a change in the current system of NICs. As well as ensuring fiscal neutrality, these changes ensure that the gains are concentrated among the poorest tenth, paid for largely by extra redistribution from top incomes (Table 3). The top fifth incur modest losses on average. This helps to bring about a more progressive income tax system and boosts the redistributive power of the overall tax/benefit system.

**Table 3: The distributional impact of introducing Model 1 (percentage change in net income for each benefit unit decile)**

Decile	Change in average net income (%)
1 (poorest)	+139.5
2	+8.2
3	+3.8
4	+4.1
5	+3.2
6	+3.6
7	+2.5
8	-0.1
9	-2.4
10 (richest)	-7.0

The scheme produces a more progressive and integrated tax–benefit system compared with the one currently in place. The impact on poverty, inequality and means testing of introducing Model 1 is shown in Table 4.

**Table 4: The impact of introducing Model 1, 2 and 3: winners and losers, changes in poverty, inequality and means-testing levels, as at 2022/3.**

		Model 1	Model 2	Model 3
Decile 1 (poorest)	Individuals gaining	100.0%	100.0%	100.0%
	Individuals gaining more than 5%	99.8%	99.9%	100.0%
Decile 2	Individuals gaining	67.3%	86.1%	96.4%
	Individuals losing	32.7%	13.9%	3.6%
	Individuals gaining more than 5%	55.0%	71.3%	86.4%
	Individuals losing more than 5%	18.1%	9.5%	1.8%
Impact on poverty compared with base as at 2022/3*	Child poverty (base = 27.3%)	12.5%	8.1%	3.8%
	Working-age adult poverty (base = 19.4%)	14.9%	10.3%	5.7%
	Pensioner poverty (base = 16.7%)**	7.7 %	9.8%	4.0%
Fall in inequality (Gini coefficient)	Base = 0.346	Falls to: 0.303	Falls to: 0.253	Falls to: 0.186
Proportion of households claiming means-tested benefits	Base = 19.9%	19.7%	15.4%	9.5%

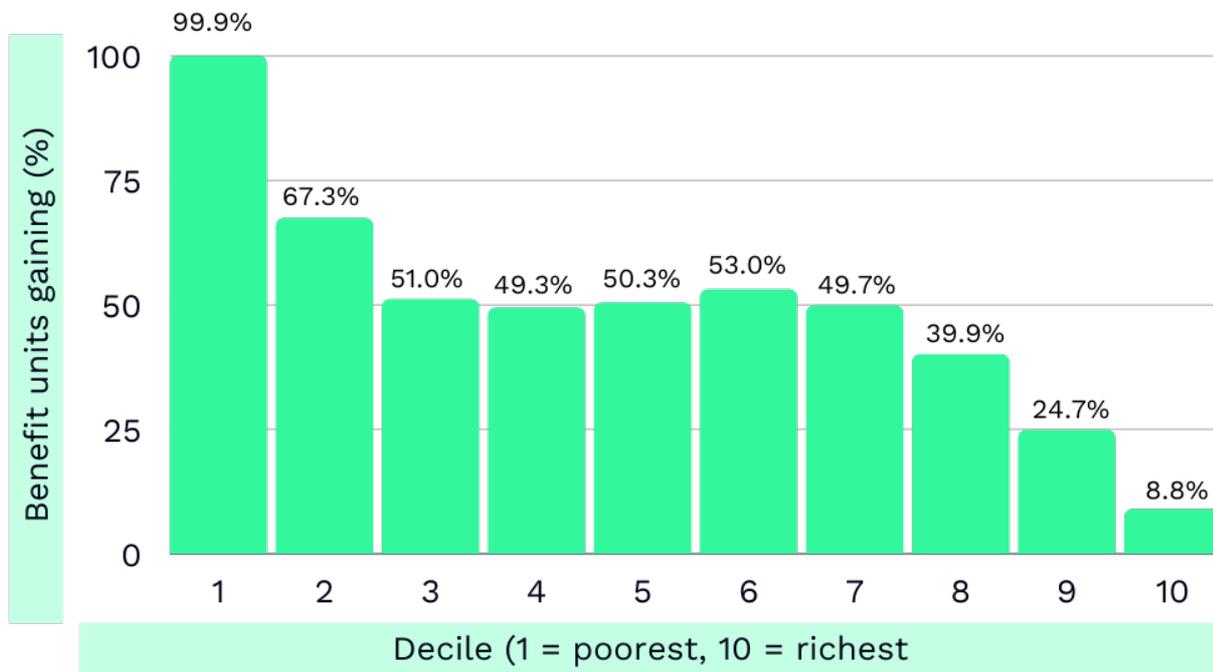
\* Poverty is relative poverty (measured as the proportion of individuals in households falling below 60% of median net household income) after housing costs.<sup>44</sup>

\*\* Poverty among pensioners rises between schemes 1 and 2 because this is relative poverty and while the UBI payment are increased for working age adults and children in scheme 2 compared to scheme 1, payments are unchanged for pensioners in the two schemes. Hence some pensioners are pushed below 60% median because the median increases.

These are the main effects from Model 1 (compared with the base system):

- Child poverty falls by more than a half, (from 27.3% to 12.5% ). This takes the level of child poverty to below the level of 14.0% in 1977 (Figure 1).
- Working-age poverty falls by just over a quarter (from 19.4% to 14.9 %).
- Pensioner poverty falls by 54% (from 16.7% to 7.7%). This takes the level of pensioner poverty to well below the lowest post-1961 rate of 14% in the early 1980s.<sup>45</sup>
- The Gini coefficient falls by 12.5%.
- Overall, 49.4% of benefit units gain and 50.6% lose. The gains are concentrated among the poorest and the losses among higher income groups. Middle income households in deciles 4–7 gain small amounts on average.
- There are no losers amongst the poorest tenth, but 32.7% amongst the second decile and 49% amongst the third decile. Overall, just over a quarter of benefit units in the bottom three deciles lose out. About half of the losers lose less than 5%. It would be possible to avoid losses completely for benefit units in the lowest three deciles in the short run by including a package of transitional protection alongside the UBI scheme (whereby any low-income benefit unit losing out from the introduction of UBI receives a compensation payment so that it is no worse off than in the baseline scenario). In 2022/23, a transitional protection package for the bottom three deciles would cost around £2.4bn.
- There is only a small reduction in the proportion of lower income households dependent on means testing. This is because the UBI payments in Model 1 are not large enough by themselves to lift households out of means-testing, especially given that £20 of UBI per individual is disregarded in the income calculation for UC and legacy means-tested benefits.<sup>46</sup>

**Figure 4: The proportion of benefit units gaining some income under Model 1, by decile band**



## The cost

As shown in Table 5, the net cost of model 1 (excepting transitional relief) is close to zero, with no change in the balance of the public finances and no net increase in taxation. The gross cost of paying out flat rate benefits comes to £274bn. This cost is met almost in full by savings from the abolition of child benefit and the state pension, savings on current universal credit payments and the proposed tax adjustments (especially the cut in the personal tax allowance).

The scheme essentially involves a reallocation of existing tax–benefit resources in favour of low-income groups.

**Table 5: The cost of implementing each Model**

All costs/savings in £bn	Model 1	Model 2	Model 3
Gross cost of citizens income	274.4	464.3	677.5
Benefit savings:			
Abolition of child benefit	10.6	10.6	10.6
Abolition of state pension	96.9	96.9	96.9
Reduction in Universal Credit/legacy benefits	7.1	37.4	59.6
Total savings	114.6	144.9	167.1
Tax changes:			
Reduction of personal allowance to £750	90.9	90.9	90.9
National insurance changes	54.4	-78.2	-78.2
Income tax rate increases	14.7	306.9	497.7
Total tax increases	160.0	319.7	510.5
Net cost	-0.3	-0.3	0.0

## ‘Not for patching’

These results show that even a modest UBI scheme would bring significant improvements in the system of income support. Contrary to the claims of critics, such a scheme is affordable, feasible and would be highly progressive, with a profound impact on opportunities and life chances.

It would:

- create a new, built-in, automatic anti-poverty and pro-equality force.
- achieve a significant boost in the incomes of most of the poorest families (with around three-quarters of the bottom 30% of benefit units – and effectively all in the lowest decile – gaining), and cut child poverty by more than a half, working-age poverty by more than a quarter, and pensioner poverty by more than a half.
- reduce inequality and strengthen universalism.
- offer a new, more comprehensive counter-cyclical device, under which rates could be adjusted temporarily to handle both economic and natural shocks, and a means of applying a more direct form of ‘people’s quantitative easing’ or ‘helicopter money’ (see Appendix C).

These are significant gains. They would take poverty levels back to, or just below the levels of the mid-1970s, thus more than reversing the rises in poverty of the last 45 years. The mid-1970s was an historic moment, a period of peak equality and a low point for post-war poverty.<sup>47</sup> The impact can be compared with New Labour's ambitious programme – from 2000 – to cut (and then eliminate) child poverty. This programme – a mix of an expanded tax-credit scheme and other policy changes such as the introduction of the national minimum wage – had cut child poverty by around a fifth by 2010.<sup>48</sup> While this was significant progress and widely acknowledged, the reduction could not be maintained, and the poverty level has returned to pre-millennial levels.

The model could be implemented within the lifetime of a single parliament in one go, phased in possibly over a longer period, or introduced at lower initial rates. One possibility would be to implement the system in stages, starting with the conversion of a large part of the personal tax allowance into a cash payment of £34 per week for all adults or £43 per week if the payment were restricted to working-age adults only (appendix B).

The static gains would also rise over time as the dynamic effects set in. By providing all citizens with more choice over work, education, training, leisure and caring, for example, it would also lay the foundations for greater personal empowerment and freedom, a springboard for more stable and fulfilling lives.

It is increasingly widely accepted that Britain needs a new, more resilient, system of social security – not tweaks to the old one. As William Beveridge declared in his 1942 Report that laid the foundations for the post-war system of social support, the time 'is not for patching'.<sup>49</sup> A modest income floor would offer a new vision for social protection in today's more uncertain and turbulent world, a new social contract fit for the 21<sup>st</sup> century. It would finally honour the centuries-long call for a basic income floor. It would put down a marker for the kind of society we would like to emerge in a post-coronavirus world.

# Model 2: An intermediate scheme

Model 2 is a more generous scheme with the weekly payments raised to £63 for a child and £145 for an adult (the payment for pensioners stays the same as in Model 1). This is an annual rate of £21,632 for a family of four. The details are set out in Table 6.

**Table 6: Elements of Model 2**

Model 2: Elements	
Weekly payment levels (tax free)	<p>Adult aged 18–64: £145</p> <p>Child aged 0–17: £63</p> <p>Adults 65+: £190</p>
Changes to existing benefit system	<ul style="list-style-type: none"> <li>• For each benefit unit, £20 of the UBI is disregarded for the purposes of calculating means-tested support (Universal Credit, Pension Credit and any other legacy benefits).</li> <li>• The payment above this disregard is counted as income for the calculation of other benefits.</li> <li>• Child benefit and existing state pension are abolished.</li> <li>• The existing state pension of £185.15 per week is converted into an unconditional flat rate ‘citizens’ pension’ of £190 per week.</li> </ul> <p>NICs and the new pension scheme are abolished; eligibility for the state pension would thus become automatic for citizens above the state pension age, rather than conditional on an adequate contributions record as at present, thus raising the income of those with incomplete contribution records, mostly women, and the group most vulnerable to pensioner poverty.</p>

Changes to tax system	<ul style="list-style-type: none"> <li>• Income tax personal allowance is reduced to £750 per year.</li> <li>• Current income tax higher-rate threshold stays at £50,270 gross income.</li> <li>• Employee and self-employed NICs are abolished (employer NICs are retained at their current levels).</li> <li>• To compensate for the abolition of employee and self-employed NICs and to ensure fiscal neutrality of the overall UBI package, income-tax rates are raised in England, Wales and Northern Ireland to 48.2p (basic), 68.2p (higher) and 78.2p (additional). For Scotland the structure is slightly more complex, reflecting the differences in the current income tax system for Scotland compared to England; the lowest rate of income tax is 47.2p, rising to a top rate of 79.2p.</li> <li>• These tax and NI changes are intended to reduce complexity, regressive impacts and disincentives to employment and are sufficient to meet the additional cost and ensure fiscal neutrality.</li> </ul>
Implementation	The scheme would need to be implemented over time in steps.

Because of the higher levels of payment, the scheme ensures greater gains in income amongst the poorest, and larger losses at the top (Table 7). It is therefore more progressive and redistributive than Model 1, and brings larger falls in poverty for children and adults of working age and pensioners, along with lower inequality and more means testing shifted to the tax system as shown in Table 4. Significantly, Model 2 cuts the Gini coefficient to close to the level of peak equality in the late 1970s. These changes are shown in Table 8.

The gross cost of Model 2 (Table 5) of £464bn is nearly double that of Model 1. One way of paying for the additional net cost of the scheme and ensure fiscal neutrality is through further income tax rises. The personal allowance is, as in Model 1, reduced to £750 while existing tax rates are raised to 48.2p, 68.2p and 78.2p respectively. These include a 13p uplift to cover the cost of the abolition of employee and self-employed NICs, so are not as large as they might appear in terms of overall levels of taxation.

**Table 7: The distributional impact of introducing Model 2 (percentage change in net income per decile)**

Decile	Change in average net income (%)
1 (poorest)	+319.5
2	+19.3
3	+10.7
4	+6.3
5	+5.9
6	+3.9
7	+4.5
8	+1.5
9	-3.2
10 (richest)	-15.9

## Alternative revenue options to meet the additional cost of Model 2 (and also 3)

There are alternative ways of raising the additional revenue, and thus reducing the rise in income tax rates required.

For example, the Demos calculator estimates that (in 2020)<sup>50</sup>:

- Charging Capital Gains Tax at current Income Tax rates would raise £10bn per year
- A wealth tax levied at 1% per year above £1m financial wealth would raise £3bn per year
- Replacing Inheritance Tax with a Lifetime Receipts Tax on gifts worth more than £100,000 to the recipient (across total lifetime) would raise £8bn per year
- Applying VAT to private school fees and private medical care would raise £6bn per year

Other options include:

- Raising the rate of corporation tax (a rise of 1p raises £2.6–2.8bn).<sup>51</sup>
- Reducing the number and cost of tax reliefs; the Office of Tax Simplification has identified 1,156 such reliefs (nearly four times the annual listing of 400 by the UK tax authority).<sup>52</sup> These cost the exchequer around £400bn annually (though a large chunk of this sum includes personal tax allowances and VAT exemptions). Tax relief on pension contributions, for example, costs £41bn a year, mostly to the benefit of higher income groups, while £34bn is the cost of reliefs from corporation tax and capital gains tax for business assets.<sup>53</sup> Restricting pension relief to the basic rate of tax would save £10bn a year. ‘Entrepreneur’s relief’ – a large capital gains tax break for company owner-managers and known to be poorly targeted – has cost £22bn over the last decade and its abolition would save £2.7bn a year.<sup>54</sup>
- A phased reduction in financial support to home owners and private landlords. The Chartered Institute of Housing has estimated that subsidies and grants to private owners cost around £8bn a year, with a main impact on house prices and much of the gain accruing to property developers.<sup>55</sup>
- Extending NICs to those over 65, a change advocated by the InterGenerational Foundation as a way of improving intergenerational fairness.<sup>56</sup> This would raise around £2bn
- Restricting tax relief on pension contributions to the basic rate of income tax would raise £10bn
- Reversing the freeze in diesel and petrol excise duties since 2010 (raising £9bn).
- Raising the revenue yield from the new digital services tax on big technology companies such as Facebook and Google, introduced in the 2018 budget and set to raise £400m pa from 2020.<sup>57</sup>
- Introducing higher rates on existing eco-taxes.<sup>58</sup>

# Model 3: a higher level scheme

This model illustrates the impact of setting payments to ensure that all families reach the Minimum Income Standard. These rates for 2021 (excluding rent, childcare costs and Council Tax) were £212.64 for a working-age single adult, £297.95 for a couple pensioner, £388.92 for a lone parent with two children and £482.31 for a couple with two children.<sup>59</sup> The weekly payments for Model 3 are set at £95 per child and £225 per adult (an annual payment of £33,280 for a family of 2 adults and 2 children). The higher payments involve a much higher gross cost and therefore significant tax rises to meet it. As an illustration, existing income tax rates are raised in England to 65, 85p and 95p (with alternative means of meeting the cost set out above, in addition to prospective social and economic returns on investment downstream).

The scheme delivers significant gains (compared with the base system and further gains compared with models 1 and 2) and another move in the direction of a more progressive and redistributive tax system (Table 8).<sup>60</sup>

**Table 8: Summary of falls in poverty and inequality**

	Base level %	Model 1 %	Model 2 %	Model 3 %
Child poverty falls to	27.3	12.5	8.1	3.8
Working-age adult poverty falls to	19.4	14.9	10.3	5.7
Pensioner poverty falls to	16.7	7.7	9.8	4.0
The Gini coefficient falls to	0.346	0.303	0.253	0.186

# Conclusions

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These results show that a modest UBI scheme along the lines of Model 1 would be affordable, feasible and highly progressive. It could also be implemented within the lifetime of a single parliament and significantly, would take poverty rates for children and pensioners to below the post-1961 low-point achieved in the late-1970s for children and early 1980s for pensioners.<sup>61</sup> This would be an historic development. It would help to correct at least part of Britain's bias to inequality and poverty, and would bring further clear social and economic gains, including improvements in health, mental health and well-being, over time.

While the scheme has the potential to bring significant social advance, it is not a silver bullet. It does not solve all the faultlines with today's economic and social system, but would be a powerful central element of a radical anti-inequality strategy, similar to the process of transformation begun in 1945.

Models 2 and 3 are much more generous and thus more costly. Both would lead to further significant cuts in poverty and inequality (Table 8) while the health gains would very likely be greater than Model 1, thus helping to offset the higher costs of such schemes through the gains from its dynamic effects. In this sense, the initial costs of a UBI with payment levels above the rates of Model 1 could be seen as an investment that would deliver subsequent returns. However, because of their high initial cost, moving from Model 1 towards models 2 and 3 should be seen as long term goals. Some of the economic gains from the dynamic impact of Model 1 could be used to finance further steps towards more generous payments.

What is important about Model 3 is that it shows that it is technically possible to have a society where nobody falls below MIS and where poverty rates are historically very low. In a static model, significant changes to the tax-benefit system (in particular, higher marginal tax rates on incomes) are required that would make the scheme politically challenging to implement. If such a scheme were to deliver sizeable positive health effects, the long-term cost would fall.

Each of these schemes provides a means of dealing with a number of complex social problems at a time in which the state's ability to deal with complexity through individual policy mechanisms has been in decline. By reducing poverty and inequality, these models would also contribute to the lowering of other key social problems such as crime, inactivity and, vitally, ill-health. The next stage of the project will examine the extent to which

these fully modelled schemes offer the potential for dealing with an unprecedented crisis of adolescent mental health that, left unchecked, may cast a more permanent shadow over the coming decades. Our coming RSA report demonstrates that the absence of security that previous generations took for granted has rendered almost half of young people clinically depressed and anxious and unable to contribute to society in ways that would have been unthinkable even a decade ago. This report suggests that this is avoidable and that, in these feasible UBI schemes, politicians have the ability to address these issues.

# Appendices

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## Appendix A: The Landman Economics Tax/Benefit model

The Landman Economics Tax-Transfer Model (TTM) is a micro-simulation model of the tax–benefit system. The model was originally developed for the Institute for Public Policy Research and is also used by the Resolution Foundation and the Joseph Rowntree Foundation.

The TTM uses data from the Family Resources Survey to analyse the impact of direct taxes, benefits, tax credits and Universal Credit, and data from the Living Costs and Food Survey to model the impact of indirect taxes.

The information in the Family Resources Survey allows payments of direct taxes and receipts of benefits, tax credits and/or Universal Credit to be modelled with a reasonable degree of precision for each household in the Family Resources Survey, using either the current tax–benefit system or an alternative model. For example, the user can look at what the impact of an increase in the income tax personal allowance would be. Using a ‘base’ system (often the actual current tax–benefit system) and one or more ‘reform’ systems, the model can produce the following outputs:

- aggregate costings of each system (amount received by the exchequer in direct taxes and NICs, and amount paid out in benefits, tax credits and Universal Credit)
- distributional impacts of reform system compared with base system (e.g. change in incomes in cash terms and as a percentage of weekly incomes in the base system); the distributional effects can be broken down according to several different variables, of which we use two breakdowns in particular in this report: income decile (ten equally sized groups of households, from poorest to richest according to equivalised disposable income), and household type
- winners and losers from a particular reform or set of reforms
- the impact of reforms on overall inequality of disposable incomes (Gini coefficient)
- the impact of reforms on household and child poverty rates.

**Technical note:** This report uses income at the benefit unit level for analysis of distributional gains and losses and the proportions of winners and losers from each set of reforms. This is because the distributional

impacts of UBI and the tax increases to finance it can be assessed more accurately for multiple benefit unit (MBU) households than if household income is used as the unit of analysis. By contrast, we use household level incomes when modelling the impact of UBI and tax changes on poverty and inequality. This is for comparability with the UK Government's Households Below Average Income (HBAI) statistics which use household level analysis, as well as previous time-series analysis of income inequality and poverty by the Institute for Fiscal Studies, which also uses household incomes.

## Appendix B: Converting the personal tax allowance into cash-free payments

A key element of the partial scheme is the conversion of most of the existing tax-free personal allowance for income tax into a tax-free cash payment paid to all individuals. The full personal allowance currently costs £118bn, but is of no benefit to those with earnings below the tax threshold.<sup>62</sup> Conversion of the full personal allowance would finance a universal basic income of £45 per week for all adults (rising to £56 per week if the payment were restricted to working-age adults only).<sup>63</sup>

This step would be highly progressive in its own right: it would introduce a firm income floor, albeit modest, establish the principle of a guaranteed minimum income as of right, and reduce poverty and inequality. It would involve no additional costs to the Exchequer. The gross cost is met in full by the rise in tax revenue from the abolition of the tax personal allowance. There is a strong case for taking such a step and there is growing support for such a move.<sup>64</sup>

The introduction of child benefit in 1978 (which abolished child tax allowances and family allowances and converted them into a tax-free payment for all children) is a powerful precedent for converting tax allowances into flat rate cash payments. This reform – highly controversial at the time and initially opposed and delayed by the Labour cabinet<sup>65</sup> – has proved one of the most important anti-poverty measures of the last 40 years.

## Appendix C: Implementation, economic shocks and ‘helicopter money’<sup>66</sup>

However desirable such a scheme would be, Britain – for the moment at least – lacks the means for delivering it. A universal basic income scheme would require both a national entitlement list and a system for making payments. Although such a list already exists for those in receipt of child benefit and the state pension, there is no detailed single record of all citizens. There are many separate records, including National Insurance numbers, child benefit payments, the electoral roll and passport lists. To implement a scheme, these separate sources would need to be brought together to compile a comprehensive list of all those legally entitled in the UK, and their addresses, contact and bank details. Creating a list is perfectly possible but would require broad public consent.

One of the strengths of a universal basic income floor is that it could be used to boost demand through special payments in times of economic emergency and shock such as in the financial crisis of 2008 and during the first year of Covid-19. Such support could be dialled up and down as needed, while such special payments would not need to be funded by taxation. The upfront cost (with most or all of this cost recovered by faster recovery) could be financed by conventional borrowing or some kind of quantitative easing (printing money) but with the advantages that the cash payments would reach households directly instead of indirectly via the banks, would not have the effect of boosting asset values as with conventional QE, and be less vulnerable to fraud. Using the pandemic as an illustration, giving adults say an additional £200 a month and children £80 a month (through child benefit) would carry an upfront cost of the order of £5 billion a month. This is broadly equivalent to around half the monthly cost of the Treasury's 'job retention scheme' – which only reached a third of the workforce.<sup>67</sup>

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