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£1,600 a month without lifting a finger? Sadly, it will never work

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Should the government pay every adult £1,600 per month, funded out of general taxation? It sounds absurd, but individuals from the late Nobel prize-winning economist Milton Friedman to the Green Party have advocated variants of a universal basic income (UBI). Autonomy, a think tank, is now soliciting funds for a UK pilot scheme.

Under its plans, 15 fortunate people from Jarrow, in South Tyneside, and 15 from East Finchley, in north London, would receive this income for two years. Another 30 unluckier volunteers would make up a control group without the money. The choice of Jarrow and East Finchley, redolent with images of the 1936 Jarrow marches and London's glaring inequality, highlights the problems Autonomy hopes a UBI would solve.

Regrettably, this trial will offer scant insight into the realities of a national UBI. Lavishing every adult with an annual £19,200 income would inflate the government's budget by about £1 trillion per year, nearly doubling government spending. Even as a replacement for all working-age welfare, the state pension and the income tax personal allowance, it would leave a net cost of £600 billion. The trial's modest scale itself is telling: this UBI is prohibitively expensive.

Nor is the trial's design particularly helpful for testing contentious issues, such as the impact of a UBI on employment. A temporary £38,400 two-year cash boost isn't equivalent to lifelong unconditional annual payments. The former might inspire a modest change in work or career choices; the latter fundamentally alters one's financial ambitions.

A UBI this large would also require massive tax hikes, which trial participants will not face. As Jamie Whyte of the Institute of Economic Affairs points out, by giving people the income without the requisite cost, the pilot creates an unrealistic "something for nothing" scenario. A real-world UBI, with its attendant tax burden, would surely paint a much less rosy picture for the wealth and wellbeing of its recipients.

The size and unrealistic nature of the pilot is a shame, because the UBI concept provides an alternative lens with which to highlight the current welfare state's inadequacies. Today we provide financial aid in various forms, but poor working-age households are assisted primarily through the means-tested universal credit system. This alleviates hardship but makes it more difficult for beneficiaries to earn their way out of poverty.

Right now, for every £1 extra earned by a claimant paying the basic income tax rate, they will lose 69p as benefits are reduced and more income tax and national insurance is paid. The low 31p take-home margin creates a huge disincentive to working more or investing in human capital. Means-testing therefore creates poverty traps, which an unconditional UBI would obviate.

Yes, a UBI might encourage some people to give up working altogether, and higher earners would face worse work incentives from the substantially higher taxes required to fund it, making the overall work effects ambiguous. But a UBI would almost certainly enhance work incentives for poorer households, while eliminating the often-harsh conditionality and paternalism that characterises modern welfare.

Theoretically it could undermine the whole economic security state apparatus too. Why maintain minimum wage floors, restrictions on hiring and firing, and subsidies to struggling industries if a UBI already provides protection against “insecurity,” “exploitation,” and the “costs” wrought by economic creative destruction?

A UBI for adults that was set at roughly the current state pension rate (about £200 per week) could feasibly replace existing welfare programmes, including the state pension, with a net cost of somewhere just over £100 billion. Accepting this as a price to pay for rowing back on lots of inefficient government economic support would appeal to me.

Realistically, though, the majority of voters would recoil. The welfare state takes its current form in part because it reflects certain perceptions about fairness. Programmes arose because certain groups — especially the old, the sick, and single parents — were seen both as more deserving of support and falling through the gaps of voluntary charity or stingy universalism.

It’s much less obvious how you can justify “forced charity” to provide basic incomes for Premier League footballers and hedge fund managers. In fact, even with an extra £100 billion in spending, a £200 per week UBI wouldn’t guarantee that all current welfare recipients would have their incomes protected, especially those with several children or high housing costs. Over time, politicians would strip recipients who “don’t need” the UBI of payments and transfer savings to “those in need,” slowly recreating our current system.

In theory, some of a UBI’s benefits could be obtained by Friedman’s more affordable “negative income tax,” whereby households would either receive support from the government (the negative tax) or pay personal taxes, but never both together. Even this, however, would require the controversial step of making households (rather than individuals) the unit of assessment for taxation, with complex allowances required for various family types. There would still be pressures to create or maintain other benefits for more specific needs.

Despite UBI’s theoretical appeal, practical politics render it a fantasy. Adding it to our current welfare system would be prohibitively expensive and wasteful. Replacing all current transfers with a more affordable UBI wholly disregards the political complexities that got us to

this point. Nothing about this trial will change these realities. A pure UBI of the form advocated remains infeasible.

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