



A universal basic income could be a price worth paying to cut regulations

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Suppose the government redistributed to every adult Briton a basic, unconditional income of £10,000 from tax revenues. Would aggregate employment levels a) rise, b) fall, or c) stay the same?

This is the blue-sky policy question that former Labour leader Ed Miliband has been toying with.

He's not alone. Ideologically-diverse bedfellows from the neoliberal Adam Smith Institute through to the Green Party have weighed up the merits of giving everyone cold hard cash as insurance against fears of automation and lack of job security in the labour market.

There are legion concerns, trade-offs, and practical difficulties with such a policy. Yet the employment question arguably resonates most, and both proponents and opponents seem confused about it.

Last week on Newsnight, Miliband simultaneously argued that there would be little to no employment impact, but also implied that the ability to turn down work was one of the scheme's virtues.

Critics assert that earning money is what brings human dignity, without seeing that this might be why people would continue to work even with this cash stream.

The idea that paying people unconditionally would lower employment is intuitive. Some people would pocket the income and not engage in formal labour market activity, especially if they currently feel compelled to work to get by, or due to the conditionality of existing benefits.

Students may prefer to focus on their studies. Parents of newborns may opt to spend more time with their children. With a generous safety net, those between jobs may take longer to find positions that genuinely match their skills and talents too.

All these things might lower the employment rate at any given time. As Miliband implies, for people in certain situations this might not be a bad thing.

Yet this is only part of the story. When assessing the impact of a basic income, we have to ask: compared to what?

The UK's existing welfare state for working age people gives money with conditions and means-testing. This raises the incomes of poor people, but it paradoxically makes it harder for them to earn income.

As someone works more, or gets promoted, they face benefit withdrawal as well as taxes. Even under Universal Credit, this creates effective marginal tax rates of around 75 per cent – a severe disincentive to earn.

If a pure basic income replaced existing welfare, no such disincentive would exist. The overall impact on the employment rate of these two effects would therefore be ambiguous.

Here's where specifics about the scheme matter and trade-offs come in. The key problem is that a generous basic income would be extraordinarily expensive. A £10,000 basic income for adults alone would cost £580bn, far higher than the current £252bn social protection budget (which includes the state pension).

Alone, then, a basic income would necessitate huge increases in taxes, which in turn reduce the return to earning for people who currently do not receive benefits. You could start with a much lower basic income, but then you would have to be willing to make some existing benefit recipients worse off to give money to people who currently "don't need it".

A compromise is a "negative income tax" – in effect an integration of a basic income guarantee into the tax system, whereby individuals either receive money from the government, or pay taxes, but never both, with an absolute floor.

This helps lower the fiscal cost substantially, but given that the amount transferred tapers with earned income, it reintroduces some of the work disincentives that a pure basic income eliminates.

If Miliband is right, though, that a basic income provides a generous-enough safety net to give workers the power to say "no", surely significant chunks of existing employment legislation are no longer needed as well?

Minimum wage laws and statutorily enforced in-work benefits are often justified on the basis that employers would otherwise "exploit" workers. With the fall-back of a safety net, employment contracts are entirely voluntary.

Justification for other job-destroying protectionist policies in areas such as trade likewise fall away, since workers have a safety net that grants them time to retrain or find better job matches.

A basic income or a basic income guarantee need not reduce employment then. But it depends on the design and exactly what it replaces.

The challenge for this idea taking off at a political level is whether its proponents can compromise on these features.

Would libertarian advocates be willing to accept more redistribution for the elimination of intrusive welfare and damaging labour market regulations? Would leftists such as Miliband be willing to give up labour market rights in return for a more expansive safety net?

If this is to be any more than a theoretical idea, it's time to flesh out the answers to these questions.

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