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A basic income would crash on the rocks of politics

Ryan Bourne

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Shadow chancellor John McDonnell says Labour might introduce a universal basic income (UBI) pilot in its next manifesto. For a supposedly radical thinker, he's late to this party. The idea of a fixed-sum unconditional government cash transfer to all adults is now the most conventional of blue-sky thinking. In one form or another, it has been advocated by everyone from the late free-market economist Milton Friedman to the Green Party; from the Adam Smith Institute to Ed Miliband.

Only the gold standard or a land value tax are comparable in the way UBI's zealots believe this one policy would sweep away most economic ills.

We are told poverty would be eliminated, job-killing automation protected against, innovation would flourish, and working improve dramatically. Opponents aren't much less hyperbolic. A UBI would supposedly blow up the public finances, drive mass worklessness, and undermine families. But this polarised debate hides the messy truth: the UBI as an idea exposes the current welfare state's flaws. And any simple UBI would be crushed on the rocks of politics and its inherent trade-offs.

The UK's social protection budget, including tax credits and the state pension, was £217bn in 2016-17. That amounts to around £3,330 per year for every man, woman and child.

If one adds in the cost of the income tax personal allowance, which UBI advocates like to, that would climb to £315bn, or £4,800. If you added certain benefits in kind, it would climb further.

Replacing the whole lot with a UBI for every adult, and a lesser sum for children, would have some clear economic advantages. The means testing of benefits and tax credits, the conditionality, and the raft of programmes with their Byzantine rules would be abolished. The bureaucracy behind them would be scrapped too, taking with it some cost and a lot of stress.

Provided that it was not set at an extremely high level, this need not result in huge swathes of people not working. No doubt some people would pocket the income and not engage in the formal labour market, especially if they currently feel compelled to work to get by. On the margin, more students may prefer to focus on their studies. More parents might decide to spend time with children. Those between jobs may take longer to find positions that genuinely match their skills and talents.

Currently though, means tested benefits make poor people richer, but discourage them from earning more income. They face large marginal tax rates as benefits are withdrawn and this interacts with tax payments.

A UBI would remove these disincentives for progression or investment in your own human capital. As such, it could increase employment levels for many, although my guess is employment would modestly fall overall. (Incidentally, critics seem rather paradoxically to believe earning money brings human dignity, but that humans would pass up dignity pretty easily.)

It's when we get to the details of the size and scope of the UBI that the idea falls down and the coalition for it fractures. In the socialist version of the scheme, most likely adopted by McDonnell, UBI would replace working-age benefits and credits only, and not the state pension. But current spending on working-age welfare is just £89bn per year, or £1,350 per person, and it is highly targeted towards the poor, large families and those with high housing costs.

To redistribute this money across everyone would mean far less for current recipients, many of whom could suffer hugely. To make sure nobody currently in receipt of welfare was made worse off, on the other hand, would amount to a massively expensive new middle and upper class entitlement. This would require vast growth-sapping increases in tax rates across the board.

We need not delude ourselves as to which option socialists would choose. Any cross-party consensus behind UBI would disappear, as those higher up the income scale (and more likely to vote) realised this was a vast expansion of the welfare state that saw them paying more tax simply to fund their own payments and those for people who opted not to work.

A libertarian version of the UBI is more intellectually compelling and comprehensive. One could replace the whole welfare state with a pure universal cash transfer, such that individuals were not only granted a financial safety net, but could make their own provision for healthcare and education services as they saw fit.

The scope of government could be massively diminished, and vested interests and public service monopolies put out to grass.

Given socialist advocates of UBI have admitted it provides significant bargaining power for employees too, we can presumably also scrap all minimum wage laws and much labour market regulation currently predicated on overly powerful employers. To put it lightly, the politics here would be even more difficult. Imagine the headlines about scrapping the NHS, the state pension, free education and much more.

Soon to follow would be the stories about individuals and families who made bad or uninformed decisions, who are deserving of more public support. Unions, HR officials, wage campaigners and more would resist the deregulatory side, dampening the positive effects.

While a theoretical UBI has much to commend it, this sort of overhaul looks impossible politically. As my former colleague Christopher Snowden tweeted, the socialist version would become too expensive and the libertarian version too unpopular.

That's not to say we shouldn't experiment or that the principles behind it cannot be used to make marginal improvements to how we do things. But the welfare state has been built up to its current mess through political decisions and financial constraints.

To think we can ignore those might provide an interesting theoretical exercise. But it gets us no closer to meaningful changes in policy.

Ryan Bourne is the R Evan Scharf Chair for the Public Understanding of Economics at the Cato Institute