

Universal basic income: Work incentives and distributional effects

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Structure

- The political economy of UBI and some polling evidence
- Two core objections / barriers to political feasibility
 - Distributional effects
 - Work incentive effects
- The IPR's microsimulation work

The IPR's research programme



1. Microsimulation of fiscal, distributional and work incentive effects
2. Political analysis of determinants of attitudes to UBI
 - Role of precariousness, education, risk of automation, country differences, etc.
3. Comparative political economy of welfare:
 - How does UBI fit with the 'institutional logic' of different welfare states?

The political economy of UBI (1): Institutional features of UK system and dynamics of opposition and support

UK's liberal welfare state has features antithetical to UBI:

- Extensive means-testing and conditionality/sanctions
- Weak political-economic support for universalism or strong social insurance functions
- Fiscal headroom very limited
- Welfare state-political economy complementarities – dominance of both ‘work-first’ and HE
- In favour:
 - UC shares some principles / institutional features
 - No social insurance ‘veto players’
 - Large tax allowance – could be repurposed to fund UBI
 - Large numbers of potential beneficiaries (prevalence of precarious and low paid work in service economy)

The political economy of UBI (2): Polling evidence

- European Social Survey: 34,000 across 18 countries (more to come...)
 - But doesn't tell us about preferred basic income schemes or whether financing arrangements alter levels of support
- IPR poll: 2,000 UK respondents
 - Two basic options: increasing tax rates or reducing spending on other welfare provisions
 - How do these affect attitudes to basic income?

ESS attitudes survey (1)

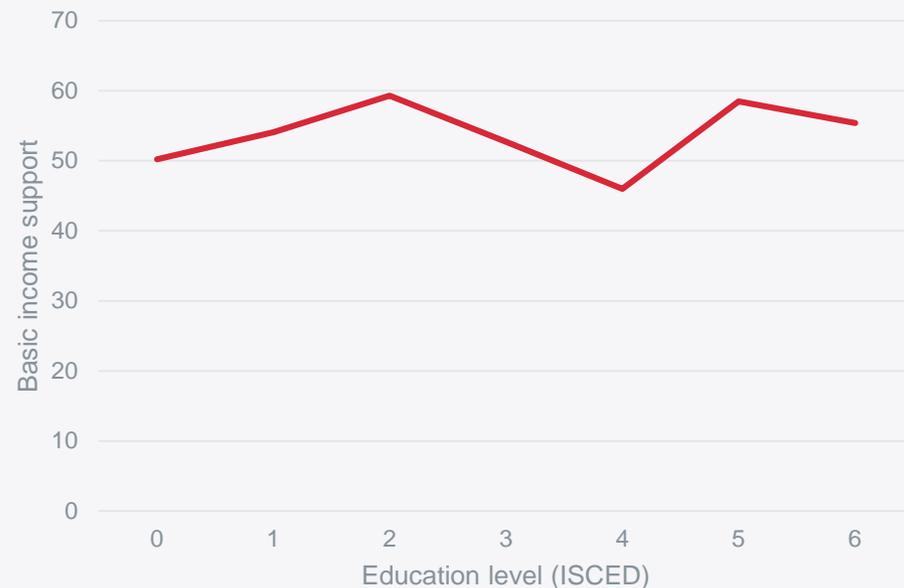
- Narrow majority in support
 - 56% across whole sample
 - 51% in UK

More strongly supported among the ‘precarariat’

- Currently unemployed (67%)
- Unemployed in recent past (64%)
- People with high (subjective) risk of unemployment (64%)
- Employed in non-permanent work (59%)

ESS attitudes survey (2)

- Non-linear relationship between support and income level and education



ESS attitudes survey (3)

- More support among low-skilled workers (60%) and socio-cultural professionals (57%)
- Support distributed across political spectrum but stronger among self-identified 'left' (57%) than 'centre' (55%) or 'right' (49%)

IPR polling (1)

Assuming the level would be set roughly at the amount the UK government judged to be necessary to cover basic needs, e.g. food and clothing (but not housing costs), to what extent would you support or oppose the UK Government introducing a basic income...

	in general?	if it meant an increase in taxes from their current levels?	if it meant cuts in welfare benefits spending from their current levels?	if it meant both an increase in taxes and cuts in welfare benefits spending from their current levels?
Net Support	49%	30%	37%	22%
Net Oppose	26%	40%	30%	47%
Net Diff	23%	-11%	7%	-25%

IPR polling (2)

Assuming the level would be set roughly at the amount the UK government judged to be necessary to cover basic needs, e.g. food and clothing (but not housing costs), to what extent would you support or oppose the UK Government introducing a basic income...
in general?

	Conservative	Labour	Lib Dem	Other
Net Support	40%	63%	52%	50%
Net Oppose	41%	17%	32%	22%
Net Diff	-1%	46%	21%	29%

IPR polling (3)

Assuming the level would be set roughly at the amount the UK government judged to be necessary to cover basic needs, e.g. food and clothing (but not housing costs), to what extent would you support or oppose the UK Government introducing a basic income...

if it meant an increase in taxes from their current levels?

	Conservative	Labour	Lib Dem	Other
Net Support	22%	43%	34%	36%
Net Oppose	54%	30%	36%	36%
Net Diff	-32%	13%	-1%	-

IPR polling (4)

Assuming the level would be set roughly at the amount the UK government judged to be necessary to cover basic needs, e.g. food and clothing (but not housing costs), to what extent would you support or oppose the UK Government introducing a basic income...

if it meant cuts in welfare benefits spending from their current levels?

	Conservative	Labour	Lib Dem	Other
Net Support	49%	34%	42%	34%
Net Oppose	23%	33%	18%	43%
Net Diff	26%	1%	24%	-9%

Two core objections / barriers to political feasibility

- The ‘progressive’ case: UBI is adequate to meet need
 - Absolute increases in poverty
 - Inefficient targeting
 - Unacceptable distributional effects
- The ‘conservative’ case: UBI is unaffordable / unsustainable due to labour market exodus
 - Higher taxes
 - Unconditionality
 - Unacceptable work incentive effects

Distributional effects

- Current conditional system modulated by need
- Gross cost of UBI clearly much higher
- But we are interested in net costs – ‘real’ economic costs
 - Falling income through higher taxes or lost benefit entitlement
- Trade-off between controlling cost / affordability and meeting need / adequacy
 - *Affordable and inadequate or adequate and unaffordable?*

Work incentive effects (1): theory

- Income and substitution effects
 - Individuals face trade-off between earning more income (work) and enjoying leisure
 - The **substitution effect** relates to how much leisure the individual must sacrifice for more income; in other words, their effective wage rate.
 - The **income effect** relates to how much leisure and income the individual chooses to enjoy as a result of being able to afford more or less of both.
- How does UBI affect income and substitution effects?
 - Reduction of poverty and unemployment traps
 - Benefit not withdrawn as employment income rises – effective wage increase
 - But:
 - Increase in income tax rates (?) – effective wage cut
 - Unconditional income means individual can ‘afford’ more leisure (and unpaid work)

Work incentive effects (2): theory

- Effects will vary with earning potential, preferences, family structure, etc.
 - Second earners in couples more likely to reduce work – *important gender implications*
- Would UBI's lack of job-search / 'workfare' conditions and sanctions really reduce labour supply?
 - Conditions 'highly effective' (Gregg, 2008)
 - But can we support labour market integration + advancement without punitive elements?
 - Intrinsic motivation likely to lead to better job match quality?

Work incentive effects (3): Empirical evidence

- Generally quite limited
 - US / Canadian experiments show marginal reduction in labour supply (Widerquist, 2005)
 - But increase in education/training and enables better work/life balance (esp. for working mothers)
 - Alaska Permanent Fund Dividend (Jones and Marinescu, 2018) has no net effect on labour supply (aggregate demand effect offsets income effect)

The IPR's microsimulation models

- 'Full' schemes paid at different levels relating to existing benefits
 - Full vs. partial basic income
 - Why?
 - Others have modelled partial / hybrid schemes (Reed and Lansley, 2016; Torry, 2016)
 - Full schemes retain range of advantages over partial schemes
 - Supplements to compensate for loss of disability premiums
- Basic incomes for different age groups
 - Young people 18-25, Pensioners
- Interested in:
 - Trade-offs between fiscal and distributional goals – affordability and adequacy
 - Static work incentives
 - Breakdown of effects by demographic – income level, labour market status, family type, disability, sex

Comparison of gross costs and distributional consequences

Scheme	Gross cost (For comparison, total benefit spending in 2016-17 was £210bn)	Tax / benefit changes and saving	Change in household poverty level
Full scheme 1: £73.10 for working-age adults; £155.60 for pensioners; and £67.01 for children	£288bn	Elimination of BSP, CA, CB, CTC, ESA, IS, JSA, PC, and WTC plus PITA £212bn	+3%
Full scheme 2: as above plus payments corresponding to standard disability supplements	£326bn	As above £214bn	-19%
Full scheme 3: as 1 plus value of personal income tax allowance (£42.19 per week)	£427bn	As above £217bn	-39%
Young adult's income	£26bn	Elimination of ESA, IS and JSA for 18-25 £2bn	-3%
Citizen's pension	£95bn	Elimination of BSP and PC £71bn	-8%

Distributional effects of revenue neutral full schemes

- Changes to tax system
 - Eliminate personal income tax allowance and harmonise national insurance rates at 12%
 - Full scheme 1 requires increase of 4% across all tax bands
 - Full scheme 2 requires increase of 8% across all tax bands
- Replacing complex benefit structure with modest uniform payments leads to poor households losing out
 - Full scheme 1: increases in poverty and inequality rates; majority of single-headed and workless households lose income
 - Full scheme 2: reduction in poverty and inequality rates but still large numbers of poorer households lose out

Distributional effects of revenue neutral partial schemes

- Torry (2016); Reed and Lansley (2016)
- Similar fiscal effects to full scheme 1
- More favourable balance between affordability and adequacy
 - Almost no losses in income for poor households
 - Significant reductions in poverty and inequality
- But many of basic income's purported advantages are eroded!
 - Limited provision of income security (lower payment levels)
 - Majority of recipients remain entangled in means-testing / conditionality
 - Work incentive improvements likely to be quite modest (compared to full schemes, discussed next)
 - Admin savings minimal

Microsimulation of work incentive effects (1)

- Participation tax rate is a static measure of the financial incentive to work vs. receiving benefit – how much gross income is taxed away?
- Full scheme 1:
 - Around 43% face increased work incentives across population
 - PTR falls on average for bottom three income quintiles
 - PTR falls by an average of 17% for households receiving means-tested benefits
 - However majority of workers face deteriorating work incentives due to higher tax rates
 - 70% of second earners
 - 64% of households with two earners

Microsimulation of work incentive effects (2)

- Full scheme 2:
 - Around 34% face improved work incentives, with 58% facing PTRs at least 10% higher
 - Only the poorest quintile faces improved work incentives on average (PTR drops 8%)
 - But even within the poorest quintile, over a third of people face weaker incentives
 - Households receiving means-tested benefits do face better incentives, but only by 4% on average, and around a third face higher PTRs

Conclusion

- Dilemma: full schemes that are affordable are inadequate, those that are adequate are unaffordable
 - Affordable = sustainable financing arrangements
 - High tax rates = political challenge and possible contractions in labour supply = unsustainable
- Labour market effects of basic income are unclear
 - Generalised effects of higher tax rates against improvement of work incentives for lower income households and benefit recipients
- Partial schemes are likely to fare better on affordability / adequacy but do not carry same advantages: simplicity, enhanced work incentives, freedom from conditionality, etc.
- An irreconcilable trilemma
 - Meeting need
 - Controlling cost
 - Securing the advantages that motivate basic income