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**A Secure Foundation to  
Build Our Lives**

**Making the Case for a Universal  
Basic Income (UBI)**

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### **ACKNOWLEDGEMENTS**

This paper has been two years in the making, when the author began research into the possibility of a Universal Basic Income forming the foundation of a 21<sup>st</sup> century welfare state. The author would first like to acknowledge Dr. Jan Eichhorn of the University of Edinburgh, who provided both encouragement and rigorous questioning of earlier ideas back in 2014. Phillipe Van Parijs and Anthony Painter, two prominent UBI advocates, were both very helpful and gave encouraging comments about the author's earlier TEDx talk on a UBI: 'We Shouldn't Have to Work Just to Survive'<sup>1</sup>. The author particularly wants to thank the contribution of the Universal Basic Income research group at the Buchanan Institute, who gave both the impetus for completing this paper, alongside diligent editing. The author is extremely grateful to Peter MacPhail for his notable IT skills and hard work in formatting.

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<sup>1</sup> Jonny Ross-Tatam, 'We Shouldn't Have to Work Just to Survive', *TEDx University of Edinburgh* (February 2015), <https://www.youtube.com/watch?v=3U6tEcllAlc>.

## CONTENT

|   |    |
|---|----|
| <b>FOREWORD</b> .....   | 4  |
| <b>INTRODUCTION</b> .....   | 5  |
| a) What is a Universal Basic Income?.....   | 5  |
| b) An old idea gaining renewed traction.....  | 5  |
| <b>A SECURE FOUNDATION ON WHICH EVERYONE CAN BUILD THEIR LIVES:</b>   |    |
| <b>MAKING THE CASE FOR A UNIVERSAL BASIC INCOME (UBI)</b> .....   | 7  |
| a) encouraging creativity, risk-taking and entrepreneurship.....  | 8  |
| b) enabling retraining and upskilling in a changing economy.....  | 11 |
| c) providing security in a flexible labour market, reducing the<br>demand for food banks and making work pay.....                 | 14 |
| d) potential benefits to health, social care and family relationships.....  | 19 |
| e) de-stigmatising benefit recipients and achieving widespread<br>political support.....  | 22 |
| f) giving people control over their lives.....  | 24 |
| <b>MAKING IT WORK IN PRACTICE</b> .....   | 25 |
| a) A practical, pragmatic and feasible scheme: a case study of<br>a UBI proposal for the UK from a major think tank, the RSA..... | 26 |
| b) Positive outcomes for low income parents with children.....  | 30 |
| c) Suggested modifications to the RSA UBI model from<br>the Buchanan Institute.....   | 32 |

**WOULD PEOPLE STILL WORK? ADDRESSING A COMMON CONCERN.....35**

**RECOMMENDATIONS.....37**

**CONCLUDING REMARKS.....38**



## FOREWORD

A team of researchers at the Buchanan Institute have been investigating the idea of a Universal Basic Income (UBI) – a universal, unconditional welfare payment to every individual, regardless of circumstances - for over two years. It has been the subject of a variety of public events and discussions organised by the Institute and it was the subject of a TEDx talk at the University of Edinburgh, by a former Buchanan President and author of this report, Jonny Ross-Tatam, in February 2015.<sup>2</sup>

Through this paper, the author will make the case for a Universal Basic Income as a secure foundation on which every individual can build their lives. They will examine the widespread potential benefits a UBI could achieve: from encouraging creativity and entrepreneurship, to making work pay and supporting people in caring for friends and relatives. With the rise of self-employment, flexible working, rapid technological change and an ageing population, our country needs a welfare system which is responsive to the ways many of us live and work in the 21<sup>st</sup> century. Indeed, the modern economy is almost unrecognisable to the post-war economy inhabited by our grandparents, which was when the much of the current welfare system was established.

With the global economy changing rapidly, there is a growing debate across the world - among politicians, policy makers, academics and entrepreneurs – about the need for our social security systems to meet the challenges of our age. The idea of a UBI, a basic weekly cash payment to every individual regardless of circumstances, has clearly become a key part of this debate: with UBI experiments being proposed in countries as diverse as Canada, the Netherlands, Finland and Kenya. There is also a possibility, at the time of writing, that Scotland will join this list, with Fife Council being touted as a potential location for a UBI experiment.

I am delighted that the Buchanan Institute will be contributing to this debate, by making both a principled and pragmatic case for implementing a Universal Basic Income in the UK.

As a non-partisan think tank, we are motivated by the evidence and what works. That is why we encourage the readers of this report, particularly the UK Government, to conduct further experiments and investigations into the possibility of a Universal Basic Income. Creating a welfare state fit for the 21<sup>st</sup> century, will require both radical thinking and sober analysis.

**JOHN HONEY**

President of the Buchanan Institute (2016-17)  
November, 2016.

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2      Ibid.

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## INTRODUCTION

a) what is a Universal Basic Income (UBI)?

A Universal Basic Income (UBI) – sometimes referred to as a Citizens Income, a Guaranteed Basic Income or Basic Income - is a simple idea. It means that every citizen of any given country, regardless of their financial or employment status, will receive the same weekly cash transfer from the government. Though this is not necessarily a given, most UBI proposals involve a smaller weekly amount for young adults and a larger one for pensioners. Most also incorporate a universal child benefit into a UBI scheme, with weekly payments for young children going towards their parents or guardians.

Malcolm Torry from Essex university articulates the definition of a UBI: it is 'universal' (meaning it is provided for all citizens, like 'universal healthcare'), 'unconditional' (there are no conditions attached) and 'non-withdrawable' (meaning it is reduced or removed when circumstances change, unlike current means-tested benefits).<sup>3</sup> In this way, it also shares marked similarities to many universal state pension schemes in developed economies around the world, including the Single-Tier pension scheme in the UK.<sup>4</sup>

To clarify, a UBI is not a limit on a person's income: it is a 'basic' and not a 'maximum' income. Individuals are free to earn whatever they like or can on top. A UBI is not reduced as one earns more, so it always rewards work and means people are better off the more they earn. The universal, unconditional and non-withdrawable nature of a UBI means that it reduces state bureaucracy and intrusion into the lives of recipients – common in the UK's current welfare system – and leaves them free to choose how best to progress their earnings, skills and livelihoods. An income floor that is never pulled from beneath your feet, it is designed to guarantee all citizens with a basic level of income security, forming the secure foundation on which everyone can build independent, successful and fulfilling lives.

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<sup>3</sup> Malcolm Torry, *Money for Everyone: Why We Need a Citizen's Income*, Policy Press (2013), p. 10.

<sup>4</sup> Torry, p. 16; the Single-Tier pension is very similar to a basic income, aside from the fact that receiving the full amount is conditional on paying into the system for 35 years; Anthony Painter and Chris Thoun, 'Creative Citizen, Creative State: The Principled and Pragmatic Case for a Universal Basic Income', *The R.S.A* (December 2015), p. 32.

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b) an old idea gaining renewed traction

Basic income is not a new idea. A form of it has been around since 1795 when American revolutionary Thomas Paine advocated for a citizens' dividend'. During the post-WW2 period it was supported by figures as diverse as Martin Luther King, Liberal economists James Tobin and John Kenneth Galbraith and Austrian economist Friedrich Hayek.<sup>5</sup> But the idea has gained significant traction within the public sphere (e.g. media) and policy circles in Westminster over the last two years. Indeed, prominent public commentators, such as Martin Wolfe of the Financial Times, Dr. Robert Reich of Berkeley and Nobel Laureate economist Joseph Stiglitz, have recently expressed interest in the idea as a potential solution to problems posed by the 21<sup>st</sup> century economy.

The issues a Universal Basic Income would seek to address are as prescient today, as ever. These include: providing income security in an insecure labour market, reducing the high marginal deduction rates\*<sup>6</sup> of our current welfare system and making work pay for low earners, providing effective welfare support for our changing workforce (including growing numbers of self-employed entrepreneurs) and responding to the potential insecurity brought by rapid technological change.

In the policy world, new proposals for the implementation of a UBI in the UK have been published by think tanks from across the political spectrum: from the Royal Society of Arts (RSA) and centre-left think tank Compass, to the free market think tank the Adam Smith Institute. While across Europe and North America, discussion around UBI has entered the political mainstream. Governments in the Netherlands, Canada and Finland have commissioned basic income pilot experiments and the ruling parties in the latter two have made manifesto commitments.

It is gaining traction in UK politics too. Despite being on the Liberal Democrats' manifesto during the early 1990s, basic income had until recently been pushed largely to the political fringes: only the UK Green Party had it as a commitment on their 2015 General Election manifesto. Since then, however, the UK Labour Party and the cross-party Work and

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5 Steven Shafarman, 'A Brief History of Basic Income Ideas', *Basic Income Europe*, <http://basicincome-europe.org/ubie/brief-history-basic-income-ideas/>.

6 \**High marginal deduction rates*' refers to the money (through reduced welfare and increased tax payments) that is lost for every extra £/\$ that someone earns. In the UK, current marginal deduction rates for low income earners can be as high as 83% of extra earnings.

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Pensions Committee have commissioned investigations into the feasibility of a UK basic income scheme.

There is also growing interest and support for a basic income among the U.S. West Coast tech community, one notable supporter being serial tech entrepreneur Elon Musk. This is perhaps in response to rapid technological change and the potentially negative impact this could have on work opportunities for the labour force in developed countries. Indeed, on these grounds, President Barack Obama suggested a debate would be needed to be had over a universal basic income in the coming decades.<sup>7</sup>

The universal basic income has, therefore, gained renewed traction in recent years. The current tax and welfare system, largely designed during the Second World War, was built for a very different economy, where income security was almost guaranteed through salaried 'jobs for life' and full employment. Now, among advanced nations like the UK, the economy is characterised by an insecure, flexible labour market particularly for low earners; a changing workforce due to rising numbers of entrepreneurs, self-employed, freelancers and participants in the growing 'uber' or 'gig' economy<sup>8</sup>; and rapidly changing employment options due to technological change.

A new tax and welfare system for the UK, needs to provide the necessary simplicity and security to help its citizens to respond to the challenges and opportunities posed by the 21<sup>st</sup> century economy. The Buchanan Institute wishes to contribute to this growing and thriving debate, by recommending further testing and investigation into implementing a universal basic income scheme: providing a secure foundation on which everyone can build their lives.

## **A SECURE FOUNDATION ON WHICH EVERYONE CAN BUILD THEIR LIVES: THE CASE FOR A UNIVERSAL BASIC INCOME (UBI)**

"We have come to a clear realization of the fact that true individual freedom

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7 'We Must Remake Society in the Coming Age of AI: Obama,' *Wired Business* (October 2016), <https://www.wired.com/2016/10/obama-aims-rewrite-social-contract-age-ai/>.

8 The 'gig economy' involves independent workers who are often contracted for temporary, short-term engagements by employers; there is an estimated 5 million participants in the UK 'gig economy', see Rebecca Marston, 'Gig' economy alright for some as 'up to 30% work this way', *BBC News/ Business* (October 2016), <http://www.bbc.co.uk/news/business-37605643>.



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cannot exist without economic security and independence.” – Franklin D. Roosevelt, 1944<sup>9</sup>

A Universal Basic Income provides the foundation on which everyone can build independent lives. The UBI would serve as a reliable safety net for individuals during financial instability, helping them pursue their ambitions, retrain and upgrade their skills. Since the UBI payment is unconditional and non-withdrawable, it also eliminates state bureaucracy and interference into how an individual spends their money and the choices they make in pursuing life and career goals. In this way, it gives citizens security, simplicity and greater control over their lives.

a) encouraging creativity, risk-taking and entrepreneurship

A sometimes overlooked benefit of a UBI is its potential to encourage creativity, risk-taking and entrepreneurship in society. The idea is that the baseline economic security provided by a UBI would soften the downside of failure and, as tech entrepreneur Sam Altman says, could “give people the freedom to pursue further education or training, find or create a better job, and plan for the future.”<sup>10</sup> Recipients would be empowered to take risks on new innovations, projects and ventures, safe in the knowledge that a UBI will ensure their basic needs are met. The idea that a UBI could stimulate innovation, risk-taking and entrepreneurship partly explains its growing interest within the Silicon Valley technology community.<sup>11</sup> Indeed, Altman, the founder of start-up incubator Y-Combinator, has recently commissioned a basic income pilot scheme with 100 families in Oakland, California.<sup>12</sup>

The support for a UBI among Silicon Valley entrepreneurs comes not just from the threat automation potentially poses to many current jobs, but

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9 Shafarman, ‘A Brief History of Basic Income Ideas’, <http://basicincome-europe.org/ubie/brief-history-basic-income-ideas/>.

10 Michael Coren, ‘Y Combinator is running a Basic Income experiment with 100 Oakland families’, *Quartz* (June 2016), <http://qz.com/696377/y-combinator-is-running-a-basic-income-experiment-with-100-oakland-families/>.

11 Nathan Schneider, ‘Why the Tech Elite is getting behind Universal Basic Income’, *Vice* (January 2015), [http://www.vice.com/en\\_uk/read/something-for-everyone-0000546-v22n1](http://www.vice.com/en_uk/read/something-for-everyone-0000546-v22n1).

12 Jathan Sadowski, ‘Why Silicon Valley is embracing universal basic income’, *The Guardian* (June 2016), <https://www.theguardian.com/technology/2016/jun/22/silicon-valley-universal-basic-income-y-combinator>.

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also the belief that providing people with a secure economic foundation will support them in taking risks, innovating and creating their own jobs. For Marshall Brain, founder of HowStuffWorks.com, basic income means people have the free time to work on projects that might be worthy of venture capital, whilst tech commentator Waldman refers to basic income as “VC (venture capital) for the people.”<sup>13</sup> Australian entrepreneur and commentator Shane Greenup argues that governments should use basic income to support entrepreneurship by giving individuals the financial freedom to innovate, rather than by ‘picking winners’ through a top-down policy-making.<sup>14</sup>

There is little doubt that risk-taking is a component part of entrepreneurship, with studies suggesting that as many as nine in ten start-ups fail.<sup>15</sup> Indeed, there is polling evidence that suggests the risks, insecurity and uncertainty associated with entrepreneurship, as opposed to a regular salary, is reducing its attractiveness among young people.<sup>16</sup> A strong and reliable safety net provided by a basic income would, therefore, cushion the times when successful entrepreneurs, freelancers and small business owners were unsuccessful. A UBI would ensure that their basic needs are met and allow the individual to avoid spending time trying to navigate any state welfare bureaucracy with means-tested systems. Indeed, the security provided by the universally provided basic state pension – very similar to the universal basic income – has been attributed to supporting the ‘rise of older entrepreneurs’ by Age.UK.<sup>17</sup>

Those in favour of strong social safety nets would tend to agree with former Swedish Social Democrats leader Olaf Palme’s contention that ‘secure people dare’. But there is a growing pool of evidence which supports the idea that social safety nets do, indeed, encourage risk-taking and entrepreneurship. Harvard economist Gary Olds’ study on a health

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13 Schneider, ‘Why the Tech Elite is getting behind Universal Basic Income’.

14 Shane Greenup, ‘How a universal basic income could fuel entrepreneurship’, *GeekTime* (December 2015), <http://www.geektime.com/2015/12/17/how-a-universal-basic-income-could-fuel-entrepreneurship/>.

15 Erin Griffith, ‘Why startups fail, according to their founders’, *Fortune* (September 2014), <http://fortune.com/2014/09/25/why-startups-fail-according-to-their-founders/>.

16 Rebecca Burn-Callander, ‘Young people forsake start-up dreams for security and a salary’, *The Telegraph* (March 2016), <http://www.telegraph.co.uk/business/2016/03/21/young-people-for-sake-start-up-dreams-for-security-and-a-salary/>.

17 ‘The rise of the olderpreneur’, *Age.UK*, <http://www.ageuk.org.uk/work-and-learning/looking-for-work/the-rise-of-the-olderpreneur/>.

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insurance program for children in lower income households showed that having an economic safety net encouraged struggling Americans to become entrepreneurs. The study demonstrated a clear link between the security provided by the insurance and the parent's willingness to engage in risky, yet potentially innovative behaviour. In fact, the program increased incorporated businesses by 36 percent, according to the research.<sup>18</sup> Furthermore, other studies highlighted by the RSA report on basic income showed similar results, along with finding that complexity due to scarce resources can hamper decision-making.<sup>19</sup>

Basic income pilot schemes in Namibia and India serve as apt models for UBI programs in the United Kingdom. In Namibia, there was a growth in small the no. of small businesses and the percentage of villagers involved in income-generating activity increasing from 44% to 55% . The security provided by the basic income enabled more villages to set up their own businesses: brick making, dress making and bread baking were among the activities recorded.<sup>20</sup> Similar success in rising entrepreneurship was recorded in the pilot in the state of Madya Pradesh, India.<sup>21</sup> Further empirical evidence of the impact of basic income on entrepreneurship will made available through further pilot schemes in the Netherlands, Finland, Canada and the US. Though, on the basis of current evidence, it is likely that a universal basic income would support rather than hinder entrepreneurship.

On top of supporting entrepreneurship in society, a basic income could also provide more appropriate support for the already growing numbers of self-employed workers. In the UK, as part of the changing 21<sup>st</sup> century economy, the percentage of self-employed workers has reached over 15% of the total workforce: the highest since records began.<sup>22</sup> Between 2008 and 2014 the self-employed accounted for nearly 80% of the net rise in

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18 Christine Pazzanese, 'Public Programs are 'Good Economic Bets'', *Harvard Gazette* (July 2016), <http://news.harvard.edu/gazette/story/2016/07/public-programs-are-good-economic-bets/>.

19 Painter and Thoug, p. 17.

20 Basic Income Grant Coalition – Namibia, 'Pilot Project', [http://www.bignam.org/BIG\\_pilot.html](http://www.bignam.org/BIG_pilot.html).

21 Ibid, p. 40.

22 Izzy Hatfield, 'Self-Employment in Europe', *The Institute of Public Policy Research (IPPR)*, January 2015, p. 6., [http://www.ippr.org/files/publications/pdf/self-employment-Europe\\_Jan2015.pdf?noredirect=1](http://www.ippr.org/files/publications/pdf/self-employment-Europe_Jan2015.pdf?noredirect=1).

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employment.<sup>23</sup> The withdrawable nature of current UK means-tested benefits system, where payments are withdrawn as earnings increase, presents an issue for these workers. The flexibilities and uncertainties around self-employment – it is not always clear when the next paid ‘job’ or ‘gig’ will come – is inimical to a benefits system that was built for steady and reliable incomes.

Take the example of a self-employed carpenter in receipt of a Job Seekers Allowance (JSA) who found a 30-hour job to last one week only. If they were to accept the job, they would have to forego their current benefits and reapply for tax credits when there is uncertainty whether they would be commissioned for the next job. In the process of re-applying, they would have a waiting period in which they did not receive any income. Alternatively, if the carpenter accepted the payment and, by not declaring their income, stayed on the JSA, then they would be liable for benefit fraud.<sup>24</sup> Despite the risks of being punished for benefit fraud, these bureaucratic obstacles posed by current withdrawable benefit payments are considered by some to be contributing to lower than expected tax receipts in the UK.<sup>25</sup>

By providing a simple and reliable safety-net which would always be provided to recipients regardless of changing circumstances, a UBI would reduce the risks associated with risk-taking and entrepreneurship and provide appropriate support for the growing numbers of self-employed workers in the UK.

#### b) enabling retraining and upskilling in a changing economy

There is a great deal of evidence to suggest that a combination of factors – including globalisation and rapid technological change – have made the employment landscape more uncertain for young and working-age people. Indeed, a well-publicised study from Carl Frey and Michael Osborne suggested that 47 per cent of US jobs were ‘susceptible’ to being automated within the next twenty years. Frey also added that the

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23 Angela Monaghan, ‘Self-Employment in the UK at highest level since records began’, *The Guardian* (August 2014), <https://www.theguardian.com/uk-news/2014/aug/20/self-employment-uk-highest-level>.

24 Torry, p. 93.

25 Larry Elliott, ‘Would a Citizen’s Income be better than our benefits system?’ *The Guardian* (August 2014), <https://www.theguardian.com/business/2014/aug/10/tax-benefits-citizens-income-self-employment>.

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'implications are likely to be extended to employment in the UK and other developed countries'.<sup>26</sup>

This evidence demonstrates that there will be further challenges to the economic assumptions – such as 'full employment' and 'jobs for life' - that existed when the post-War welfare state was designed by William Beveridge.<sup>27</sup> There is a strong likelihood that the nature of available jobs will frequently change during our lifetimes. These changes in the economy requires a welfare system that meets the challenges people face in the 21<sup>st</sup> century; a welfare system that provides a secure foundation from which they can frequently adapt to changing economic circumstances, by retraining and upskilling for new or better paid jobs. This is likely to continue throughout the lives of recipients. As such the importance of 'life-long learning' in the new economy is on the agenda of institutions such as the World Bank and the UK Government.<sup>28</sup>

The problems recipients face within the current UK system in retraining and upskilling are highlighted by a story of two mothers, told by the R.S.A.'s Anthony Painter in an introduction to their report on basic income:

"A couple of years ago, I was told of two young mothers who were studying for a qualification in nursing care. Towards the end of their studies a local Job Centre Plus insisted that they make themselves available for work or face sanction. They left their course and failed to qualify. They lost out and their time had been wasted. They were locked in the same oscillation between benefits and poor quality work. And society lost too - we need nursing care workers."<sup>29</sup>

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26 Carl B. Frey and Michael A. Osborne, 'New study shows nearly half of US jobs at risk of computerisation'; *University of Oxford, Department of Engineering Science* (September 2013), <http://www.eng.ox.ac.uk/about/news/new-study-shows-nearly-half-of-us-jobs-at-risk-of-computerisation>.

27 'The Beveridge Vision', *The Open University* (November 2016), <http://www.open.edu/openlearn/ocw/mod/oucontent/view.php?id=6437&printable=1>; Frank Field, 'From the cradle to the grave', *The New Statesman* (November 2016), <http://www.newstatesman.com/politics/politics/2012/11/cradle-grave>.

28 'Lifelong learning in the Global Knowledge Economy: Challenges for Developing Countries', *The World Bank* (2003); Martin Hyde and Chris Phillipson, 'How can lifelong learning, including continuous training within the labour market, be enabled and who will pay for this? Looking forward to 2025 and 2040 how might this evolve?' *Foresight: Government Office for Science*, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/463059/gs-15-9-future-ageing-lifelong-learning-er02.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/463059/gs-15-9-future-ageing-lifelong-learning-er02.pdf).

29 Anthony Painter, 'In support of a Universal Basic Income – introducing the RSA Basic Income model', *The R.S.A.* (December 2015), <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2015/12/in-support-of-a-universal-basic-income-introducing-the-rsa-basic-income-model>.

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Evidence collected on the proliferation and impact of benefit sanctions suggests that this is unlikely to be a one-off case. The number of benefit recipients sanctioned has trebled within the last ten years, with over one million sanctions being issued in 2013/14, with those most affected being those most in need of support and retraining: such as those with mental health problems and young people with low educational qualifications.<sup>30</sup>

Obstructing individuals in retraining and upskilling does not only have a detrimental impact on individual recipients, but on the economy as a whole. As the UK economy would benefit from a more skilled workforce, particularly in areas of high demand such as nursing. Painter and Thoug have argued that this aspect of the current system, which coerces recipients to take the first job available rather than one matching their skills, contributes to the UK's skills mismatch and negatively affects productivity.<sup>31</sup> Part of this problem posed by the current system could be avoided by stopping welfare sanctions and thus reducing state intrusion in the lives of recipients.

UBI recipients would be free to supplement their income, through irregular one-off jobs or regular part-time work. Their UBI payment would remain the same regardless of any changes in employment circumstances. As Painter and Thoug argue, under a UBI, the focus of Job Centres could be shifted from enacting punitive and overbearing bureaucratic rules, to providing recipients with expert advice in careers, education and training.<sup>32</sup>

With an ageing population, the UK Government has expressed a hope that more people over the 'State Pension age' (over-67) continue to make a contribution to society, through the promotion of life-long learning.<sup>33</sup> This would be underpinned by the security provided by the Basic State Pension. A UBI could, therefore, underpin the promotion of life-long learning across all ages.

Basic income pilot schemes have demonstrated a positive impact on education outcomes. In Dauphin, Canada, a higher proportion of

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30 Beth Watts, Suzanne Fitzpatrick, Glen Bramley and David Watkins, 'Welfare Sanctions and Conditionality in the UK', *Joseph Rowntree Foundation* (September 2014), <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/Welfare-conditionality-UK-Summary.pdf>.

31 Painter and Thoug, p. 37.

32 Ibid, p. 32.

33 '2010 to 2015 government policy paper: older people', *Department for Work and Pensions* (May 2015), <https://www.gov.uk/government/publications/2010-to-2015-government-policy-older-people/2010-to-2015-government-policy-older-people>.

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adolescent males were able to remain in school following the start of the pilot. Mothers were also able to dedicate more time in caring for young children and pursuing further education.<sup>34</sup> The positive effect on school attendance was replicated in Namibia and India. Educational attainment increased in all three of the pilots.

As the UBI has not yet been piloted in the UK, we can only make conjectures about its impact on retraining and education. But the available evidence suggests that a welfare system which provides dependable financial security and is devoid of sanctions and overbearing state intrusion, would support people in retraining and upskilling throughout their lives. With the economy changing, a UBI can underpin a 21<sup>st</sup> century welfare system which helps citizens and the country respond effectively to the challenges posed by the 21<sup>st</sup> century economy.

- c) providing security in a flexible labour market, reducing the demand for food banks and making work pay

Painter and Thoun argue that we are entering into an age of 'underemployment', with a growing workforce but fewer hours of labour available. In the U.S., for instance, in 1993 there were 194 billion hours of labour performed. But by 2013, despite a 42% increase in the labour force and 40 million more workers, the number of hours of labour was still 194 billion.<sup>35</sup> Many of the changes happening in the U.K. economy can largely be attributed to similar ones impacting the United States.

The nature of the UK's current flexible and insecure labour market means that many workers, particularly those on low incomes, find themselves frequently moving between employment and unemployment. The Joseph Rowntree Foundation, for instance, found that between 2012 and 2014, nearly 5 million different people claimed unemployment benefit (Job Seekers' Allowance), when the average number of recipients at any one time during this period was 1.45 million.<sup>36</sup> The same 5 million

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34 Evelyn L. Forget, 'The Town with No Poverty: The Health Effects of a Canadian Guaranteed Annual Income Field Experiment', *Canadian Public Policy* (2011), pp. 283–305.

35 Painter and Thoun, p. 9.

36 Chris Goulden, 'Yes, you're better off working than on benefits – but it's not enough to reduce poverty', *Joseph Rowntree Foundation* (March 2014), <https://www.jrf.org.uk/blog/yes-youre-better-working-benefits-%E2%80%93-its-not-enough-reduce-poverty>; 'Economy Tracker: Unemployment', *BBC News/Business*, <http://www.bbc.co.uk/news/10604117>.

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people were not trapped on Job Seekers Allowance for two years, instead many different people found themselves moving between work and unemployment and back again. The commonality of low paid work is also a prominent aspect of the current UK economy: a poverty report conducted by Joanna Mack and Stewart Lansley showed that over half of the 13 million living in poverty in Britain are in work.<sup>37</sup> This is a considerable issue in itself, but goes beyond the scope of this paper.

The problem is that many JSA recipients are left to navigate the complex bureaucracy in our system whilst fluctuating between employment and unemployment. Many JSA recipients, instead of being provide with a stable income support for their transitions in and out of work, would have encountered the complex bureaucracy endemic in our current system. According to Malcolm Torry's research, it is not uncommon for benefit claimants to wait 2–3 weeks for their payments.<sup>38</sup> This poses considerable bureaucratic hurdles when claimants are frequently moving in and out of work, or increasing their hours (where they will have to apply for different levels of Tax Credits). Each time a low income workers' circumstances change – from entering employment, or increasing hours and earnings – they need to fill out a new form for the Department for Work and Pensions (DWP), have their current payments stopped and wait for a new payment to be administered a different level.<sup>39</sup>

This creates the chance for administrative errors and benefit delays, which are not uncommon and ultimately lead to detrimental consequences for recipients. The Government's own figures show that £5.2 billion is wrongly paid out as a result of fraud and error, which can be financially damaging for recipients if they find out they have to pay the Government back at the end of the year. Underpayments are also estimated at £1.3 billion a year, starving recipients of entitled support.<sup>40</sup> In addition, 'benefit delays' were, according to charity The Trussel Trust, the most common reason given for the rise in number of people using UK food banks, from

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37 'Most people classed as being in poverty 'have job'', *BBC News UK* (December 2013), <http://www.bbc.co.uk/news/uk-25287068>.

38 Malcolm Torry, p. 5.

39 Ibid.

40 'Universal Credit 'Welfare That Works'', *Department for Work and Pensions* (November 2010), pp. 10-11, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/48897/universal-credit-full-document.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf).



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492,641 in 2014 to 519,342 in 2016.<sup>41</sup> As a Universal Basic Income is unconditional and not altered when circumstances change, it would provide workers, particularly on low incomes, with a guaranteed safety net, without the need to encounter state bureaucracy. It would effectively eliminate the occurrence of benefit delays and the time-gaps between having one benefit removed and another added, removing a key reason for the rising demand for UK food banks.

On top of eliminating welfare bureaucracy, a UBI would significantly reduce marginal deduction rates\* and always make work pay. 'Making Work Pay' is a popular concept in the UK, and is a widely held public aspiration, even expectation, of the welfare system. A public opinion poll by Greenberg, Quinlan and Rosner showed that 'Making Work Pay' was considered a more important expectation for welfare than reducing 'poverty and inequality' by 57% to 33%.<sup>42</sup> One problem with the current system is that it imposes high marginal deduction rates on benefit recipients when they attempt to enter employment, increase their hours or earnings, at low incomes. Reports from the Citizens Income Trust, the RSA and the UK Government show that 'marginal deduction rates' for low income earners reach 80% or more (of every extra pound earned) – with lone parents with children facing deduction rates of 96% - thus the current system significantly reduces the incentive and reward for working and earning more.<sup>43</sup>

The administrative complexity and perverse incentives of the current system were recognised as a problem by the Coalition Government. Their efforts to introduce a 'Universal Credit' (UC) – streamlining in work and out of work benefits – was an attempt to solve some of these problems. The Coalition's ambition was to ensure low income earners faced deduction rates of no higher than 76% under a UC. Though an improvement, particularly for those facing 96% deduction rates previously, low income workers would still face significant financial penalties for increasing

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41 Patrick Scott, 'UK food bank usage rises again with benefit delays the most common reason', *The Daily Telegraph* (November 2016), <http://www.telegraph.co.uk/news/2016/11/08/uk-food-bank-usage-rises-again-with-benefit-delays-the-most-comm/>.

\*'Marginal deduction rates' describes the amount of money that is withdrawn from someone's income (through increased taxes or benefit losses) for every extra pound they earn. High 'marginal deduction rates' are considered to create welfare or benefit 'traps', where a recipient is disincentivised to increase hours and earnings from their current position.

42 Painter and Thoung, p. 14.

43 'Universal Credit: Welfare that Works', pp. 8-9; Painter and Thoung, p. 19.

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hours and earnings. That is if the UC implementation goes according to plan, which is by no means guaranteed. The administrative complexity of UC, common to any means-tested system, has been demonstrated by the difficulty in rolling out the scheme to just 18,000 of the expected 7 million claimants.<sup>44</sup> Its marginal improvements to deduction rates are also vulnerable to political decisions in UK welfare spending. For instance, the planned savings in the July 2015 Budget would increase the marginal deduction rates faced by low earners to up to 80 percent, thus nearing parity with the much maligned system the UC was trying to replace.<sup>45</sup>

Evidence suggest that a UBI would be much more effective in reducing welfare bureaucracy and marginal deduction rates. The principal advantage of a UBI is that it is non-withdrawable: meaning that, unlike any means-tested system, recipients never have their benefits withdrawn as circumstances change. It would provide a secure, guaranteed foundation on which individuals can increase their earnings and living standards. The UBI proposal from the RSA would mean no worker on low incomes would have a marginal deduction rate of higher than 32 percent.<sup>46</sup> ***For every pound they earned, workers on low incomes would be able to keep 68 percent of it under a UBI:*** a significant improvement on both the current system and the projected deduction rate under Universal Credit.<sup>47</sup> Proponents of a Universal Basic Income, therefore, can truly claim to be supporting a welfare system that always makes work pay.

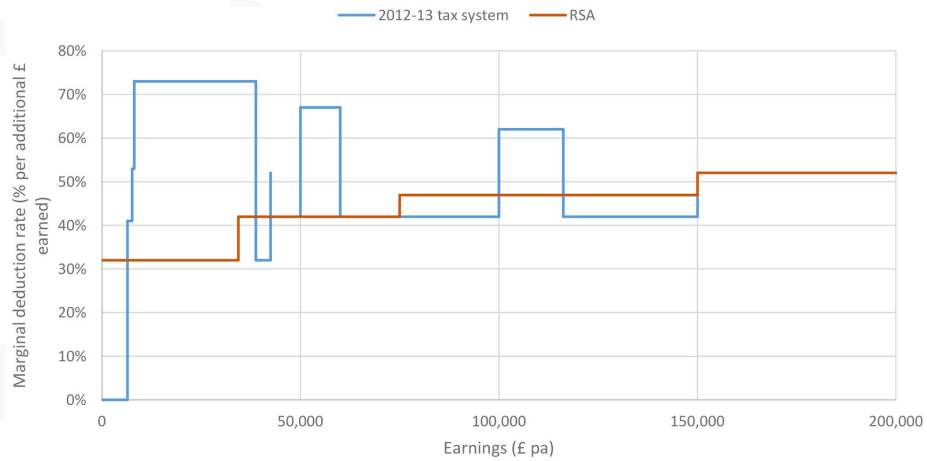
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44 House of Commons Committee of Public Accounts, 'Universal Credit: Progress Update', *UK Parliament* (February 2015), <http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/601/601.pdf>.

45 Painter and Thoung, p. 16.

46 *Ibid*, p. 6.

47 The 32p that is lost is the basic rate of income tax (20p/£1), added to the basic rate of national insurance (12p/£1), on every pound individuals earn under the RSA scheme. This, however, does not include changes to housing benefit, which remains the same under both the RSA UBI model and Universal Credit. Improving the housing benefit system will require further investigation beyond the scope of this paper.



**FIGURE 1: MARGINAL DEDUCTION RATES UNDER THE 2012-13 TAX CREDIT SYSTEM VERSUS THE RSA BASIC INCOME SCHEME<sup>48</sup>**

As evidenced in the graph above, marginal deduction rates are significantly lower for those earning between £10k and £40k, encompassing the vast majority of earners.<sup>49</sup> It is also lower for earners between £50k and £60k p/a.

The benefits of the UBI in reducing marginal deduction rates and making work pay, has not only been identified by groups like the Citizen Income Trust and think tanks like the RSA. It is also a principal reason why many think tanks and thinkers who are economically liberal or on the Libertarian Right support the premise of a UBI. These include free market think tanks such as the Adam Smith Institute and the Cato Institute in the United States, as well as free market economist Friedrich Hayek and American libertarian political scientist Charles Murray.<sup>50</sup>

A welfare system underpinned by a UBI would provide consistent security to workers, reduce bureaucracy, eliminate a root cause of food

48 Painter and Thoun, p. 28.

49 'Gross household income by income decile group, UK, 2014', *Office for National Statistics* (January 2016), <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/005220grosshouseholdincomebyincomedecilegroupuk2014>.

50 Shafarman, 'A Brief History of Basic Income Ideas'.

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poverty and always make work pay. It is our contention that this would be a marked improvement on the current system, by providing individuals with a secure foundation on which to build their earnings and livelihoods.

d) potential benefits to health, social care and family relationships

There is also reason to believe that the guaranteed income security provided by the UBI would provide further benefits to societal health, social care and increased family support. It is certainly true that a UBI system would forego the prevalence of benefit sanctions in the current system – estimated to be ninety thousand a month - which the evidence suggests are more likely to hit young adults and individuals experiencing mental health difficulties.<sup>51</sup> Furthermore, the evidence from the Guaranteed Income (MINCOME) experiments in the Canadian city of Winnipeg and small town of Dauphin between 1974 and 1979 suggests that guaranteed income security provides tangible health benefits. An analysis by healthcare economist Evelyn Forget found that hospitalization rates decreased by 8.5%, the reasons for that were reductions in “accidents and injuries” and hospitalizations for mental health issues.<sup>52</sup> Winnipeg and Dauphine were known as the ‘town and city without poverty’ and it was this, according to Forget, which was key in producing health benefits:

‘When you walk around a hospital, it’s pretty clear that a lot of the time what we’re treating are the consequences of poverty...Give people financial independence and control over their lives and these accidents and illnesses tend to dissipate’<sup>53</sup>

Forget’s research also projected that the savings to the Canadian health budget, if savings on health achieved in the experiments were replicated throughout the country, would be \$4 billion<sup>54</sup>. The Guaranteed Minimum Income project in Canada showed that providing people with

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51 Painter and Thoun, p. 16; ‘Time to Rethink Benefit Sanctions’, *Church Action on Poverty* (March 2015), <http://www.jointpublicissues.org.uk/wp-content/uploads/rethink-sanctions-report-0315.pdf>; Watts, Fitzpatrick, Bramley and Watkins, p. 3; Beth Watts and Suzanne Fitzpatrick, ‘Young Adults Hit Hardest by Benefit Sanctions’, *Joseph Rowntree Foundation* (September 2014), <http://www.welfareconditionality.ac.uk/2014/09/young-adults-hit-hardest-by-benefit-sanctions/>.

52 Forget, ‘The Town with No Poverty’, p. 283.

53 Vivian Belik, ‘A Town Without Poverty?’, *The Dominion* (September 2011), <http://www.dominionpaper.ca/articles/4100>.

54 Forget, p. 300.

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basic income security and firm financial foundations, reduces the strain on the health service, thereby reducing health care costs. These findings have inspired further basic income experiments in Ontario, Canada, and has given the idea strong support among Canadian political parties, with Justin Trudeau's Liberal Party having implementing a basic income as official party policy. The findings in Ontario, and other UBI pilot projects, should thus be closely analysed to assess the potential health benefits. From the evidence provided by the Canadian experiments in the 1970s, it is reasonable to suggest that a UBI could have a positive impact on societal health. Indeed, the UK's Faculty of Public Health, the Royal College of Psychiatrists, the Mental Health Foundation and the NHS, cite financial 'difficulties' and 'insecurity' are often key causes behind mental illness.<sup>55</sup>

Second, the UBI is considered to produce benefits to social care and particularly care for the elderly. As we live in an increasingly ageing population it is likely that the caring economy will need to expand, whether through taxpayer funded services or voluntary care from family and communities. As Painter and Thoung point out, a UBI would provide a secure financial foundation from which individuals could spend more time caring for friends or relatives, without having to account for their actions to state bureaucracy.<sup>56</sup>

The current UK system provides some support for people with caring responsibilities. But as Painter and Thoung argue, it is 'very bureaucratic'.<sup>57</sup> For instance, individuals have to provide proof that they are caring for at least 35 hours a week to receive specific caring support. The current system, therefore, provides no financial support for people – working part-time or full-time – that are required to care for 10 to 30 hours a week, despite the evident disruption this would cause to a working week. This provides an explanation for why this benefit is under-claimed by almost

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55 'The impact of the UK recession and welfare reform on mental health', *The UKs Faculty of Public Health*, [http://www.fph.org.uk/the\\_impact\\_of\\_the\\_uk\\_recession\\_and\\_welfare\\_reform\\_on\\_mental\\_health](http://www.fph.org.uk/the_impact_of_the_uk_recession_and_welfare_reform_on_mental_health); Chris Fitch, Sarah Hamilton, Paul Basset and Ryan Davey, 'Debt and Mental Health: What Do We Know and What Should We Do?', *Royal College of Psychiatrists*, [http://www.rcpsych.ac.uk/pdf/Debt%20and%20mental%20health%20\(lit%20review\).pdf](http://www.rcpsych.ac.uk/pdf/Debt%20and%20mental%20health%20(lit%20review).pdf); Iris Elliot, 'Poverty and Mental Health: A review to inform the Joseph Rowntree Foundation's Anti-Poverty Strategy', *Joseph Rowntree Foundation and Mental Health Foundation* (June 2016), <https://www.mentalhealth.org.uk/sites/default/files/Poverty%20and%20Mental%20Health.pdf>; 'Coping with money worries', *NHS Choices*, <http://www.nhs.uk/conditions/stress-anxiety-depression/pages/coping-with-financial-worries.aspx>

56 Painter and Thoung, p. 5.

57 Painter and Thoung, p. 11.

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£1 billion per year, and further evident that many carers are not getting the support they need.<sup>58</sup> Whilst this situation could be modified and improved within the current welfare system, a UBI avoids the need to create specific welfare payments for various necessary unpaid labour (such as caring). The stable income security it provides would make it easier for people to reduce their hours or take time off to care for elderly friends and family, without having to encounter any interference from state bureaucracy.

A UBI could also be positive for family relationships, by paying individuals not the household. It would eliminate the current propensity for the state to interfere in or reward individuals for being in particular relationships. The current UK system, even under 'Universal Credit', means-tests benefits through an assessment of household income. This means that benefit payments to individuals are conditional on the nature of a relationship and the income of household members.<sup>59</sup> For instance, if one partner in a relationship increases their earnings, then the other partner will see their benefits decrease as a result. This means that the state is required to conduct formal assessments of the household situation, and it is often in the financial interests of recipients to commit benefit fraud and not to declare their relationship status.

A UBI avoids all of this. Benefit fraud is eliminated, as payments are not conditional on anything aside from the recipient being a registered taxpayer or citizen\*.<sup>60</sup> It is also paid to individuals, not the household, meaning there is no reason for the state to assess or intrude on relationships, and no incentive for recipients to declare a particular relationship status, if at all. There are also no financial penalties for either partner when one partner increases their hours and earnings. Painter and Thong very clearly articulate the benefits of a UBI in this regard:

'There is no household disadvantage to cohabiting. In this sense, it supports rather than potentially undermines strong relationships. On a like for like basis, the Basic Income is, therefore, more supportive of the family. These are strong messages in comparison with the current system.'<sup>61</sup>

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58 Ibid.

59 Torry, pp. 6-7.

60 \*There is a necessary debate to be had on whether a UBI should be paid solely to citizens or to all registered taxpayers, but this is beyond the scope of this paper.

61 Painter and Thong, p. 9.

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An assessment of the available evidence and current situation suggests that a UBI could produce positive benefits for societal health, whilst also supporting carers and strong family relationships.

e) de-stigmatising benefit recipients and achieving widespread political support

A welfare system based on a UBI would help de-stigmatise benefits and benefit recipients. Benefits that are means-tested and targeted invariably enjoy considerably less public support than universal benefits (those given to everyone). The recipients of means-tested benefits face more stigmatisation than the recipients of universal benefits. This was clearly demonstrated in a study by Christian Albrekt Larsen showed media attitudes in country's with high levels of universal benefits (such as Sweden and Denmark) were considerably less negative towards benefit recipients than in countries where benefits are more means-tested and residual (such as the UK and the US).<sup>62</sup> Media stigma in the U.K. was also more likely to target individual benefit recipients, whereas negativity in the Scandinavian countries was targeted at the whole country, its citizens and the welfare system in general.<sup>63</sup>

The reason behind this is perhaps obvious. Means-tested and targeted benefits – provided on the basis of certain conditions like employment, income and relationship status - tend to set the majority who finance them against the minority who receive them. Means-tested benefits may also set those who are struggling and are not receiving benefits against those who are struggling and are. A characteristic of means-tested benefits, therefore, is their unpopularity with the electorate, making them more vulnerable than universal programmes to public spending cuts in times of austerity. According to the British Social Attitudes Survey conducted in 2012, support for 'raising taxes to fund welfare provisions for the poor' has fallen to as low as 28%.<sup>64</sup> It seems that people are more likely to be reluctant to tax-and-spend welfare policies if they feel that they are going to bear the cost and not receive any rewards.

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62 Larsen and Djegaard, 'The Institutional Logic of Images of the Poor and Welfare Recipients: A Comparative Study of Danish, Swedish and British newspapers, *Journal of European Social Policy* (2013), p. 294

63 Ibid.

64 E. Clery, 'Welfare: Are tough times affecting attitudes to welfare?', in Clark, Clery, Curtice, Phillips and Uttiny, *British Social Attitudes, the 29<sup>th</sup> report* (2012), Nat Cen for Social Research.

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However, the same surveys consistently show high public support for universal welfare services and benefits, provided to everyone. Public spending on healthcare in the UK, for instance, enjoys the support of 88% of survey participants.<sup>65</sup> Healthcare in the UK is, of course, universal and available to everybody, regardless of circumstances. Support for keeping its universality has consistently remained above 75% of the population.<sup>66</sup> For the majority of the population, public spending on universal services, like healthcare and education, is seen as spending on themselves rather than just someone else. Support for healthcare and education, both universal provisions, are consistently viewed as the top two spending priorities for the public.<sup>67</sup> We should also note that the Basic State Pension, universally provided to all those of pensioner age, and essentially a UBI for pensioners, retains high levels of public support.<sup>68</sup>

Though polling on a Universal Basic Income is fairly limited at present, there is some evidence to suggest that a UBI could gain considerable public support. A recent poll conducted across the European Union asked respondents whether they would support a policy which provided “an income unconditionally paid by the government to every individual regardless of whether they work and irrespective of any other sources of income”, replaced “other social security payments” and was “high enough to cover basic needs”. Support among Britons was at 62%, slightly lower than the EU average of 64%, with the highest being Spain at 71%.<sup>69</sup>

However, the best available evidence of public support of a UBI comes with through the Alaska Permanent Fund Dividend, described by Painter and Thoung as ‘the most applicable UBI scheme in operation’.<sup>70</sup> The Alaska Dividend is generated from oil and gas revenues and provides an equal payment to each Alaskan of between \$878 and \$3269, depending on the oil and gas revenues that year. This universal payment to each Alaskan is high popular, enjoying 80% of support, and is described as the ‘third rail of Alaskan politics’ – meaning any attempt to alter the policy would be

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65 Ibid.

66 Ibid.

67 Ibid.

68 Ibid.

69 Jon Stone, ‘Two-thirds of the British public support a universal basic income, poll finds’, *The Independent* (May 2016), <http://www.independent.co.uk/news/uk/politics/universal-basic-income-unconditional-ubi-poll-britain-uk-switzerland-policy-a7043281.html>.

70 Painter and Thoung, p. 40.



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political suicide.<sup>71</sup> Furthermore, in the UK there is widespread public anxiety about benefit fraud. According to the British Social Attitudes survey, 77% believe high numbers of benefit recipients claim fraudulently, despite the evidence suggesting that this is rarer than the public thinks.<sup>72</sup> However, UBI would help soothe such anxieties since its unconditional nature essentially eliminates the possibility for welfare fraud. There is no way of increasing or decreasing your UBI payment, as it is a guaranteed universal payment to all taxpayers or citizens.

The evidence suggests that *universal* welfare payments and services (whether pensions, the Alaska Dividend, healthcare or education) enjoy significantly more public support than means-tested benefits and programmes. Given the support of universal programmes once they are implemented, it is likely that a practical and financially feasible UBI scheme would receive more public support than current means-tested benefits. We have also talked about how the UBI would be more successful than current benefits at reducing marginal deduction rates and 'making work pay', which is a popular aim amongst the British public. It's universal nature, paid to everyone, creating a reciprocal relationship between paying in and receiving, makes it a 21<sup>st</sup> century welfare system that is more likely to last than means-tested alternatives.

f) giving people control over their lives

By providing unconditional financial security and independence, a UBI aims to give individual's greater control over their lives. Individuals would have the secure platform from which to start new business ventures, undertake education or training and generally build their livelihoods. They would be able to re-enter employment or increase their working hours (on low incomes) without experiencing high marginal deduction rates and being able to keep most of the extra money they earned. Safe in the knowledge of a guaranteed weekly income, individuals could reduce hours or take time

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71 Ibid.

72 Ben Baumberg, 'Public attitudes to the benefits system: are they changing?', *British Social Attitudes*, 31, Nat Cen for Social Research, <http://www.bsa.natcen.ac.uk/latest-report/british-social-attitudes-31/benefits/public-attitudes-to-the-benefits-system-are-they-changing.aspx>; 'Support for benefit cuts dependent on ignorance, TUC-commissioned poll finds', *Trade Union Congress* (January 2013), <https://www.tuc.org.uk/social-issues/child-poverty/welfare-and-benefits/tax-credits/support-benefit-cuts-dependent>.

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off work to care for friends and relatives. Partners in a relationship would also not face any financial penalties for living in the same household.

Crucially, as the UBI is unconditional, state bureaucracy would be markedly reduced and there would be no reason for the state to intrude into the recipients' lives' when circumstances changes. Under a UBI system, welfare recipients would not face sanctions for not meeting conditions set by the state. With a UBI, once their National Insurance number is provided and the payment received, the idea is to leave recipients alone to get on with their lives. The UBI is, therefore, about promoting individual freedom as well as guaranteed income security.

Furthermore, as a UBI is designed to cover an individual's basic needs, many people will no longer need to work in any particular job just to survive. Nor will they be coerced into the first job identified by Job Centres through the threat of sanctions. UBI security opens the opportunity for individuals to do jobs they want to do, rather than what they need to do to cover their basic needs. There is evidence to suggest that this would provide benefits to worker motivation and thus productivity. Through his study of motivation in *Drive*, Daniel Pink demonstrates that having a sense of purpose presents a more powerful, effective and creative motivational force than simply necessity.<sup>73</sup> Despite that, increasing earnings also provides an important motivation, and any individual who wishes to do that, particularly those on lower incomes, would be rewarded under a UBI, as low marginal deduction rates would let them to keep most of the extra money they earn.

The financial security and independence provided by a UBI, alongside significant reductions in state welfare bureaucracy and intrusion, helps recipients have more control over their lives than in current means-tested systems. As Libertarian academic Charles Murray writes, a UBI **'says just one thing to people who have never had reason to believe it before: your future is in your hands'**.<sup>74</sup>

## **MAKING IT WORK IN PRACTICE**

There are a range of policy proposals for implementing a UBI. These include, the highly generous proposal developed for the Swiss referendum

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73 Daniel H. Pink, *Drive: The Surprising Truth About What Motivates Us* (2009).

74 Charles Murray, 'A Guaranteed Annual Income for Every American', *Wall Street Journal* (June 2016), <http://www.wsj.com/articles/a-guaranteed-income-for-every-american-1464969586>.

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on a UBI in 2016 (proposing over £20k p/a) and libertarian Charles Murray's proposal of a \$13,000 p/a basic income for all Americans. Both of these propose replacing the whole of the welfare system with a UBI, and for Murray this includes healthcare.<sup>75</sup> The Buchanan Institute are most interested in UBI proposals for the UK which meet **three key requirements:** **1)** that the proposal is fiscally sound, practically achievable and is within reasonable budget constraints; **2)** that it ensures that the least-well-off, particularly low-earners with children, are well supported; and **3)** that it ensures low marginal deduction rates, making work pay for the majority of earners.

There are now a number of practical, costed, peer-reviewed UBI proposals from UK think tanks, which are either 'revenue neutral' (i.e. do not cost any extra money) or close to this. These include the Citizens Income Trust (CIT), Compass and the Royal Society for the encouragement for the Arts, Manufacturing and Commerce (RSA). ***We have decided to throw the most weight behind the RSA proposal by Painter and Thoung, because it meets all three of the Buchanan Institute's key requirements.***

- a) A practical, pragmatic and feasible scheme: a case study of a UBI proposal for the UK from a major think tank, the RSA.<sup>76</sup>

The R.S.A. have adopted the figures from the Peer Reviewed Citizens Income Trust (CIT). The RSA Universal Basic Income model (which it calls a 'Citizens Income') would replace the current Child Benefit, Basic State Pension and much of the current means-tested welfare payments (except for disability and housing benefits). It proposes:

- **£4,290 p/a (£82.50 P/w)** for the first child aged 0-4 and **£3,387 (£65.13 P/w)** for additional children, paid to parents or guardians.
- **£2,925 p/a (£56.25 P/w)** for children aged 5-15, also paid to parents.

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<sup>75</sup> Olivia Goldhill, 'Switzerland is voting on a proposal to give every citizen \$2,500 a month, no questions asked', *Quartz* (June 2016), <http://qz.com/699563/switzerland-is-voting-on-a-proposal-to-give-every-citizen-2500-a-month-no-questions-asked/>. For Charles Murray's proposal see: Veronique de Rugy, 'Universal Basic Income's growing appeal', *National Review* (June 2016), <http://www.nationalreview.com/corner/436282/universal-basic-incomes-growing-appeal>.

<sup>76</sup> Painter and Thoung, pp. 1-51.

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This would, therefore, replace current Child Benefit payments. The higher payments for children aged 0-4 is justified by the disruption it causes to parents' ability to earn through work, as well as the childcare costs. The rate for 5-15 year-olds is lower due to the child's entry into full-time education making it easier for parents' to increase earnings through work. It is also consistent with current Income Support rates.<sup>77</sup>

For young adults, 16-24 year-olds, they propose:

- A UBI payment of **£2,925 p/a (£56.25 p/w)**
- Also that young adults should, through a '**confirmation affirmation**', publicly declare how this income will help them in learning, working, caring, volunteering or setting up a business; for 18+ year-olds receipt will be tied to being on the electoral register.<sup>78</sup>

We do not consider the 'contribution affirmation' as a fundamental contradiction to the UBI's unconditional nature. They are not coercive, and payments will not be withdrawn if a recipient doesn't fulfil their 'contribution affirmation' or if there are any changes in an individual's economic circumstances. Instead it is a way of establishing, as a 'rite of passage' for all young adults, a reflection on their responsibility to society as a citizen. Once they have done this, and stay on the electoral register, their UBI is a guaranteed and unconditional payment under all circumstances.

All adults aged between 25-64 will receive:

- **£3,692 p/a (£71 p/w)**, which is the same level as the Job Seekers Allowance (JSA) is currently.
- This is paid to everyone, however those earning over **£75k p/a** (those in the top 5% of earners) will begin incurring a charge on their UBI, which will increase until the **£3,692 p/a** payment is cancelled out by an annual charge for those earning over **£150k p/a**.
- **Only those in the top 1% of earners will 'effectively' receive no UBI payment (as their charge will match their payment).** 24-65 year-olds earning exactly **£75000 p/a** will pay **£0** in a UBI charge,

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77 Painter and Thoung, p. 25.

78 Ibid. p. 7.

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but this will increase as a percentage of every extra £1 earned until it reaches a maximum of £3,692 by earnings of £150k p/a. Those earning £112,500 p/a will still, for instance, receive an effective UBI payment of £1,846.

- Painter and Thoun justify this as a fair way of *'covering the cost of ensuring that those on low income with young children do not lose out in a transition to this system (and higher earners with young children benefit too).'*<sup>79</sup>

Pensioners will receive:

- **£7,420 p/a (£142.70)**, an increase on the current basic State Pension level of £119.30 a week.<sup>80</sup>
- The RSA model also includes State pension entitlements that are in excess of the UBI Pension (otherwise known as the 'Citizens Pension' or the Universal Basic Pension') rate.<sup>81</sup>

A full overview of the RSA proposal can be seen in the **TABLE 1** below, at an overall annual cost of **£280.2-283.9 billion**.<sup>82</sup>

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79 Painter and Thoun, p. 23.

80 For information on the UK Basic State Pension, see <https://www.gov.uk/state-pension/overview>.

81 Painter and Thoun, p. 24.

82 Ibid.

| Age   | Income per person (£) |          | Population mid-2012 (m) | Annual cost (£bn)  |
|---|-----------------------|----------|-------------------------|--------------------|
|   | per week              | per year |                         |                    |
| 0-4   |                       |          |                         |                    |
| First child                                     | 82.50                 | 4,290    | 4.0                     | 13.5-17.2          |
| Additional children                             | 65.13                 | 3,387    |                         |                    |
| 5-15  | 56.25                 | 2,925    | 8.0                     | 23.4               |
| 16-24   | 56.25                 | 2,925    | 7.5                     | 21.9               |
| 25-64   | 71.00                 | 3,692    | 33.4                    | 123.3              |
| 65+   | 142.70                | 7,420    | 10.8                    | 80.1               |
| <b>TOTAL</b>                                    |                       |          | <b>63.7</b>             | <b>262.2-265.9</b> |
| State pension entitlements in excess of CP rate |                       |          |                         | 15.0               |
| Running costs                                   |                       |          |                         | 3.0                |
| Total Cost of Citizen's Income                  |                       |          |                         | <b>280.2-283.9</b> |

**TABLE 1**

The RSA pays for nearly all of their scheme through a combination of substituting the UBI for a number of means-tested benefits (excluding disability and housing) and removing the personal tax allowance, making all earned income up to **£42,500 p/a** (above which the higher 40p rate is paid) taxable at the basic rate: the basic rate of income tax (20p/£1) + National Insurance contributions (12p/£1). They also save £10 billion by removing the higher rate tax relief on pension contributions, which is justified by removing a benefit for a few to help fund a Basic Income for all. See the total savings in **TABLE 2** :

| <b>Policy</b>   | <b>Cost (£bn)</b> |
|---|-------------------|
| Child Benefit and Child Tax Credits                           | 34                |
| Working age benefits (Income Support, JSA, etc)               | 27                |
| Working Tax Credits   | 7                 |
| Administrative savings and Tax Credits written off            | 10                |
| Student grants and loans written off                          | 3                 |
| Personal allowances (income tax)                              | 68                |
| Primary threshold and self-employed reliefs (NI)              | 23                |
| State Retirement Pension, SERPS, S2P, Pension Credit, and MIG | 90                |
| Higher rate tax relief on pension contributions               | 10                |
| <b>Total</b>  | <b>272</b>        |

**TABLE 2**

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Subtracting the savings from the costs, seen in the two tables above, leaves an annual shortfall of between £8.2 billion and £11.9 billion. They also propose adding some tax changes to ensure few tax losses for those on lower incomes, as well as re-installing the 50p top rate of income tax for earnings above £150k.<sup>83</sup> Altogether, the estimated extra cost of the RSA model is at least **£9.8 billion** and at most **£16.4 billion** p/a.<sup>84</sup>

Although this sounds like a significant extra cost, it is actually within the range of tax and spending decisions made by the current Government, during a period of austerity. As Stuart Adam and Barra Roantree point out, despite a period of overall public sector retrenchment, the Government were able to fund three tax cuts which amounted to **£19.5 billion**, these were:

- Increasing the income tax personal allowance to £10,600: **£8.0bn.**
- Reducing the main rate of corporation tax from 28 percent to 20 percent: **£7.6bn.**
- Real-terms cuts to fuel duties: **£3.9bn.**<sup>85</sup>

Another Government expenditure to consider is the plan to increase the 40p tax threshold from £42,000 to £50,000, at the cost of **£9 billion** by 2020. The projected cost of the RSA's UBI model, therefore, fall into the range of tax and spending decisions made by the current Government.<sup>86</sup> This necessary expenditure for a UBI desirable by how it will leave many parents with young children better off and always make work pay, particularly those on lower to middle incomes.

b) Positive outcomes for low earners with children.

A key requirement for any UBI scheme is to ensure that parents with young children, particularly those on low incomes, are well supported when

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83 For more information about the RSA's tax proposals, see Painter and Thoug, pp.23-28.

84 Painter and Thoug, p. 28.

85 Stuart Adam and Barra Roantree, "The Coalition Government's Record on Tax," 2015, [www.election2015.ifs.org.uk/article/the-coalition-governments-record-on-tax](http://www.election2015.ifs.org.uk/article/the-coalition-governments-record-on-tax).

86 Stephen Bush, 'No John McDonnell, people earning over £42000 have not been hit hard', *New Statesman* (November 2016), <http://www.newstatesman.com/politics/economy/2016/11/no-john-mcdonnell-people-earning-over-42000-have-not-been-hit-hard>.

compared to the current system. Lack of success in this regard formed a major criticism of the Citizens Income Trust (CIT) UBI scheme, and the RSA's success is a major reason for our support. As seen earlier, the RSA's proposal ensures parents with young children are well supported by providing a higher UBI rate for children aged 0-4. **TABLE 3** below shows how parents, on low to middle incomes<sup>87</sup>, with young children are better off with the RSA's UBI scheme when compared to the Universal Credit system.<sup>88</sup> The scheme also significantly benefits middle income parents with slightly older children: with two parents earning £22,450 p/a (£11.50 p/h) with one child over 5, being £3,959 better off under the RSA UBI scheme.

| Family |  | 2020/21   |                      |          |
|--------|--|---|----------------------|----------|
|        |  | New household income -current proposed system (£) | RSA Basic Income (£) | Gain (£) |
| 1      | Single, one child, under five, part-time (20 hours), wage floor                          | 13,480  | 15,635               | 2,155    |
| 2      | Single, one child, over five, part-time (20 hours), wage floor                           | 13,480  | 14,090               | 610      |
| 3      | Couple, two children (one under five), wage floor (one partner 37.5 hours, one 20 hours) | 25,840  | 34,469               | 8,629    |
| 4      | Couple, two children (both over five), wage floor (one partner 37.5 hours, one 20 hours) | 25,840  | 33,946               | 8,106    |
| 5      | Single, one child (over five), low earning (37.5 hours per week at £11.50 per hour)      | 18,930  | 22,889               | 3,959    |
| 6      | Single, one child (under five), low earning (37.5 hours per week at £11.50 per hour)     | 18,930  | 24,435               | 5,505    |

**TABLE 3**

It is also worth stressing the success of the RSA UBI model in significantly reducing the marginal deduction rates for the majority of earners, letting workers keep more of the extra income they earn. A comparison between marginal deduction rates under the RSA model and the current system

<sup>87</sup> Those earning £11.50 p/h earn approximately £22,500 p/a before tax, which is just above the median income of £21,900.

<sup>88</sup> Painter and Thong, p. 30.



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is shown in **FIGURE 1** on page 17. This would help a majority of those on low and middle incomes increase their earnings, not just those with children.<sup>89</sup>

c) Suggested modifications to the RSA UBI model from the Buchanan Institute (BI)

The Buchanan Institute is enthusiastic about the RSA's UBI proposal, particularly its fiscal realism, practicality and benefits for lower and middle income parents with children. However, we suggest some slight modifications:

**1) PROVIDE THE UBI FOR ALL CHILDREN, NOT JUST THE FIRST**

**TWO.** The RSA proposed reducing the UBI child payments, potentially to zero, after the first two children. While this may align with current political expectations, we consider this unfair to children born in large, and particularly low income, families. A wide range of available evidence demonstrates that the early years (0-4 years) are crucial in a child's cognitive development.<sup>90</sup> Starving children born in large families of financial resources could have a negative impact on child poverty and educational inequality. Aware of the financial implications, we propose to reduce the higher rate of UBI payment for the first child (aged 0-4) from £4,290 to **£3,839**. We then propose that the lower rate of £3,387 is paid for **all** subsequent children aged 0-4.

It is necessary to point out that this would mean that the gains for parents with one or two young children will be slightly lower after these modifications. That said, they will still be considerably better off than under the current system:

- *A single parent with one child* (under five), working 20 hours a week at the wage floor will be **£1704 better off** than the current system, rather than £2155 under the RSA scheme.
- *A couple with two children* (one under five) earning the wage

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89 Ibid, p. 20.

90 Priya Gothari, Graham Whitham and Thomas Quinn, 'A Fair Start for Every Child: Why We Must Act Now to Tackle Child Poverty in the UK', *Save the Children* (2014), [https://www.savethechildren.org.uk/sites/default/files/images/A\\_Fair\\_Start\\_for\\_Every\\_Child.pdf](https://www.savethechildren.org.uk/sites/default/files/images/A_Fair_Start_for_Every_Child.pdf).

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floor (one at 37.5 hours, one at 20 hours) will be **£8178 better off**, rather than £8,629 under the RSA scheme.

- A single parent with one child (under five) earning £11.50 p/h, working 37.5 hours a week, will be **£5054 better off**, instead of £5,505 under the RSA scheme.

**2) FOR 18-24 YEAR-OLDS TO RECEIVE THE FULL ADULT RATE**

**OF £3,692.** We consider this necessary to more fully support young adults in pursuing education, training and work. It is not clear that young adults would require less support than those over 25 years-old. This would also enable to full adult rate to *nearly* replace the basic rate of student maintenance loans, currently at £3,928 per year. *This would remove the need for £3.5 billion worth of loan payments from Student Finance England every year and reduce individual student debt by £11,076 by the end of a three-year degree.*<sup>91</sup> We propose that extra student finance is maintained to make up the difference between the UBI and the current basic loan payments. We also support keeping the student maintenance grant support for low income students, at a cost of £1.5 billion p/a.<sup>92</sup>

**3) 16-17 YEAR OLDS SHOULD STILL BE ON THE LOWER £2,925**

**RATE.** This is justified by the fact that 16-17 year-olds are more likely to be living at home than 18-24 year-olds. However, they should be eligible to receive the full amount if they enter higher education: there is no legitimate reason why 17 year-old students should receive less support than their 18 year-old peers in higher education.

See the **TABLE** below for a full overview of the modified UBI scheme:

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91 Paul Bolton, 'Student Loans Statistics', *House of Commons Library* (October 2016), <http://researchbriefings.files.parliament.uk/documents/SN01079/SN01079.pdf>.

92 'Abolition of Maintenance Grants in England, 2016/17', *House of Commons Library* (January 2016), <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7258>.

| AGE  | INCOME PER PERSON (£)<br>PER WEEK | INCOME PER PERSON (£)<br>PER YEAR | POPULATION<br>(MILLION)* | ANNUAL COST<br>(£BN) |
|--|-----------------------------------|-----------------------------------|--------------------------|----------------------|
| 0-4<br>FIRST CHILD   | 73.83                             | 3,839                             | 4.0                      | 13.5 - 15.4          |
| ALL ADDITIONAL CHILDREN  | 65.13                             | 3,387                             |                          |                      |
| <b>5-15</b>  | <b>56.25</b>                      | <b>2,925</b>                      | <b>8.0</b>               | <b>23.4</b>          |
| 16-17  | 56.25                             | 2,925                             | 1.5                      | 4.4                  |
| 18-64  | 71.00                             | 3,692                             | 39.3                     | 145.1                |
| 65+  | 142.70                            | 7,420                             | 10.8                     | 80.1                 |
| <b>TOTAL</b>   |                                   |                                   | <b>63.6</b>              | <b>266.5</b>         |
| STATE PENSION ENTITLEMENTS IN EXCESS OF UBI PENSION (65+) RATE |                                   |                                   |                          | 15.0                 |
| RUNNING COSTS  |                                   |                                   |                          | 3.0                  |
| <b>TOTAL COST OF UBI</b>                                       |                                   |                                   |                          | <b>284.5 – 286.5</b> |

The overall cost of this modified UBI scheme is projected to cost at least £600 million and at most £6.3 billion more than the RSA scheme. The overall shortfall from the savings made from the tax and benefit changes seen in **TABLE 4** (above), with the exception of student maintenance grants\*<sup>93</sup>, leaves an overall annual shortfall of at least **£14.1 billion** and at most **£19 billion**. The modified UBI scheme comes at a higher cost than the original RSA proposal, however, it is still within the range of the spending decisions made by the current Government (see pages 34-5). Given the benefits this UBI scheme would provide, in reducing marginal deduction rates/ always

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making work pay and making lower-middle income parents with children better off, we consider an additional expenditure of approximately £16.5 billion both feasible and desirable.

### **WOULD PEOPLE STILL WORK? ADDRESSING A COMMON CONCERN**

There is a great deal of evidence to suggest that, contrary to common concern, the vast majority of adults will continue to work with a UBI. First, even with the high marginal deduction rates – of up to 83% - endemic in the current welfare system, people still seek work. As a 2013 TUC report shows, despite the public thinking that nearly half of those claiming unemployed benefit (JSA) do so for over a year, the real figure is just 10% - that means approximately 90% of unemployed people re-enter the workforce in under a year.<sup>94</sup> The evidence suggests that even with high disincentives and lack of reward for work, the vast majority of able-bodied adults still seek employment. There is little available evidence, therefore, to suggest that a UBI (at £3,692 p/a) would dis-incentivise able-bodied adults from working. In fact, with the low marginal deduction rates of a UBI, it would ensure that workers, particularly those on low incomes, gain greater reward for re-entering employment and increasing their earnings.

Second, a UBI at the level proposed by the RSA and the Buchanan Institute, £3,692 p/a, is sufficiently 'basic' to incentivise further earnings through work. To put it into context, as an annual income, the adult UBI payment of £3,692 is less than half the income of the lowest 1% of UK earners (£9,710) and significantly less than the median annual income (£21,900).<sup>95</sup> It is difficult to imagine a significant number of adults being content with an annual income of less than 95.5% of UK earners. The aim of a UBI, as the Buchanan Institute proposes, is to provide 'basic' income security on which individuals can build their earnings and livelihoods.

Third, the available polling evidence demonstrates that the public are aware of the pragmatic realities of a UBI as well. In a poll of attitudes towards UBI across the European Union, only 4% of respondents said they

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<sup>94</sup> Support for benefit cuts dependent on ignorance, TUC-commissioned poll finds, *Trade Union Congress* (January 2013), <https://www.tuc.org.uk/social-issues/child-poverty/welfare-and-benefits/tax-credits/support-benefit-cuts-dependent>.

<sup>95</sup> Office for National Statistics (ONS), 'Gross Household Income by Income Decile Group', <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/income-andwealth/adhocs/005220grosshouseholdincomebyincomedecilegroupuk2014>.

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would stop working and only 7% said they would work less. Of those 7%, it is likely that many would choose to spend more time with family or for caring purposes, chosen by 15%. Far more (40%) said it would not affect their work choices and 10% said they would use the guaranteed financial security to gain additional skills.<sup>96</sup>

Fourth, beyond polling, the evidence from trials in both developed economies as diverse as Canada, India and Namibia, showed that a UBI did not significantly discourage work. In fact, it encouraged it in some cases. Forget's analysis of the experiment in Dauphine, Canada, showed that only two groups of people worked less: new mothers and teenagers. Mothers who had recently given birth, according to Forget, used the guaranteed income security to increase their maternity leave, and spend more time with their new babies. Teenagers used it to stay longer in school and take up their first full-time job at a later date – indeed school completion rates increased during the experiment.<sup>97</sup> Both of these developments, longer maternity leave and increased school attendance, are positive and should be encouraged.

Furthermore, the evidence from India and Namibia, showed that a UBI encouraged work and spurred entrepreneurship. It was shown to encourage investment and increase labour activity. In Namibia, the percentage of those able to gain work or establish self-employment rose from 44% to 55%. Clearly there are limitations from drawing comparisons between developing economies and developed ones like the UK. That said, the available evidence demonstrates that a UBI would not discourage work, except perhaps for new mothers and teenagers, and may also spur further employment, economic activity and entrepreneurship. Further experiments in the Netherlands, Ontario (Canada), Oakland (USA), Finland and Kenya should provide us with further evidence on the impact of a UBI.

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96 Stanislas Jourdan, 'Europe: 64% of people in favour of universal basic income, poll finds', *Basic Income Earth Network* (May 2016), <http://basicincome.org/news/2016/05/europe-eu-poll-basic-income-support/>.

97 Forget, 'The Town with No Poverty', p. 291.

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## RECOMMENDATIONS

### 1. A UBI pilot scheme for the UK

*The Buchanan Institute recommends that the UK Government commission a pilot experiment of a UBI in a medium-sized UK city or town* (with a population of 250,000 to 500,000). As an organisation, we are committed to developing and proposing evidence-based policies: what works is what works. There is a widespread consensus on the need to reform our welfare system for the 21<sup>st</sup> century, so it seems sensible to test the impact of a UBI – on work patterns, health and social care, education and entrepreneurship – through a pilot experiment. This should be an experiment based on those commissioned by the current Canadian, Finnish and Dutch governments. The current Government has shown a desire to test policies before implementation, through the pilot tests of Universal Credit, so we propose the same is done with a Universal Basic Income. We propose that the recipients in the experiment are provided with a UBI payment which matches the levels proposed by the Buchanan Institute.

### 2. That the Work and Pensions Committee investigates the implementation of the RSA basic income proposal, as modified by the Buchanan Institute.

*The Buchanan Institute's second recommendation is for the Work and Pensions Committee to investigate the RSA UBI proposal, as modified by the Buchanan Institute in this paper.* We enthusiastically support the decision by the Work and Pensions Committee to hold a session for oral evidence on a UBI/Citizens Income on January 2017.<sup>98</sup> This presents an opportunity to begin further investigation into the idea. We call on the Committee to give careful consideration to the RSA UBI proposal, as modified by the Buchanan Institute, and to investigate the possibility of its implementation.

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98 'Committee explores introducing a citizen's income', *House of Commons Select Committee* (October 2016), <https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news-parliament-2015/citizens-income-launch-16-17/>.

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## CONCLUDING REMARKS

The Universal Basic Income is an old idea gaining renewed traction. The onset of a rapidly changing economy, more flexible working and employment patterns, technological change and an aging population, have put the UBI firmly on the political and policy agenda across the world. Indeed, our economy is now almost unrecognisable to the post-war economy inhabited by our grandparents. It was *then* that much of the current welfare system was established, we *now* need to rethink the welfare state to make it fit for the economy inhabited by current and future generations.

A UBI should not be seen as a utopian panacea, but a pragmatic solution to the challenges we face. It would ensure for all adults, not necessarily a comfortable living on its own but, a secure financial foundation on which every individual can build their livelihoods. As has been pointed out, a UBI could produce a range of benefits for both the recipient and society as a whole. From encouraging risk-taking and entrepreneurship, retraining and education, to providing security in an insecure labour market, making work pay and supporting carers. That's not to mention the health benefits identified in previous experiments, through a reduction in hospitalisations caused by financial insecurity.

It could achieve all of this whilst also drastically reducing state welfare bureaucracy and intervention into people's lives. The simple idea underpinning a UBI is to provide every individual with basic income security and to then to leave people alone to get on with their lives. It is, therefore, about both income security and individual freedom. The available evidence showing that recipients will not stop working, as well as the significant reduction of marginal deduction rates (making work pay), should placate those fearful of a work-shy population. So too will the fact that a UBI is, as the name suggests, a 'basic' level of support. There will be ample incentive, financial and otherwise, for individuals to increase their earnings and contribute to society.

The recent contribution from the RSA has shown that a UBI is not a utopian idea, but one which is pragmatic, practical and achievable. They have demonstrated a UBI model, providing everyone with a basic level of income security and making low income parents better off, that is fiscally sound and implementable. The Buchanan Institute is generally supportive of this proposal, but we have proposed some modifications (see **TABLE 4**) to the levels received for the 1<sup>st</sup> child aged 0-4 (to make it more affordable

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for it to be received on behalf of *all* children of this age) and for young adults (aged 18-24).

Creating a welfare state that is fit for the 21<sup>st</sup> century will require a close assessment of the evidence and what works. This is why governments around the world have commissioned UBI pilot experiments in cities and towns. For this reason, *we recommend that the UK Government commissions a UBI pilot scheme for a medium-sized town to receive the payment levels as proposed by the RSA and modified by the Buchanan Institute (see TABLE 4)*. We are encouraged to hear that a potential pilot project is being discussed by Fife Council. We hope that both the Scottish and UK Governments will support these efforts and look to establish more experiments elsewhere.

The Buchanan Institute are also encouraged that the Work and Pensions Committee will begin an investigation into a Universal Basic Income or Citizens' Income. This provides an opportunity for a radical re-think of our welfare system and for a considered investigation into implementing a practical UBI scheme. We, therefore, propose that the RSA proposal, as modified by the Buchanan Institute, is duly investigated by the Committee.

Our changing economy and the lack of fitness of our current welfare system to meet the challenges this brings, demands a radical re-think of our social safety-net. A Universal Basic Income, with the benefits it could bring to the individual, the family and society as a whole, is well worth close consideration from both the Work and Pensions Committee and UK Government.



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