

FALLING IN AND OUT OF LOVE WITH UNIVERSAL BASIC INCOME

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Summary: Can a Universal Basic Income replace Universal Credit?

Paul Morrison

Universal Basic Income (UBI) is where every person is given by the government a secure unconditional tax free payment, the amount varying only by the recipients age. As we increasingly recognise the damage caused by Universal Credit and its insecure and brutally conditional income, more and more people are looking towards UBI as an alternative.

As a Christian, whose worldview is shaped by the idea that all people are created in God's image, I found the idea of Universal Basic Income hugely attractive. It is, in many ways, the opposite of Universal Credit. The inherent equality of UBI appears to offer families support with dignity. The idea of UBI is strongly in tune with my personal ideological and religious preferences. I think many are attracted for the same reasons.

It appears, however, that Universal Basic Income's simple idea hits big difficulties when it meets real people's complicated lives - not unlike Universal Credit. Universal Credit had at its heart a simple idea which was widely accepted - "get people into work and make it pay". It suited many people's ideological preferences, but when it hit the reality of people's lives it damaged them.

The big idea is not enough. The pain usually comes when you look at the details.

For example: over 5 million households in the UK need support with housing. London's average rent is £1,700 a month. In the North East, it's £495. In one universal payment - the same for everyone across the country - how does UBI deal with that problem?

The answer is that usually UBI doesn't try. Instead, most UBI-type schemes propose keeping housing benefit in addition. Keeping housing benefit comes with means tests, conditionality and sanctions¹, all the things that you might hope UBI gets rid of.

The think-tank Compass is currently holding a number of "UBI Conversations" with faith groups. In 2018 they compared several different UBI schemes. All of them, for the reasons above, proposed keeping Housing Benefit as it is. Crucially, even then, any scheme which replaced the non-housing parts of Universal Credit with a UBI ended up increasing child poverty markedly. For this reason the Joseph Rowntree Foundation², who funded the work, rejected UBI as a poverty fighting tool.

Compass put forward a preferred scheme that did reduce poverty. It achieved this by keeping Universal Credit unchanged. This scheme would move around more than double the cost of Universal Credit (approximately £140 billion) but means tests, fit-for-work tests and sanctions would remain.

¹ Sanctions applies to the housing costs element of UC. People yet to be transferred to UC or Pensioners on the old style Housing Benefit do not face conditionality and sanctions in the same way.

² Joseph Rowntree Foundation. <https://www.jrf.org.uk/blog/universal-basic-income-not-answer-poverty>

These results are in keeping with other models of UBI. The experience of Universal Credit and it seems UBI is that many people's complicated lives simply do not fit with what at first looks like a simple but inflexible solution.

I want to see an end to conditionality and sanctions. A change in the law would do that tomorrow. None of the UBI schemes proposed would not come close to doing that without increasing poverty.

I want to see a reduction in poverty. The UBI scheme which leaves Universal Credit in place does reduce poverty but at a much higher political and financial cost than introducing a better funded, less brutal, less intrusive means-tested system. It also leaves the problems with conditionality, fitness for work tests and sanctions in place.

As Christians, our mission is based on our understanding of humanity as created by a loving God, that values each person. This requires that we offer each other the respect and dignity due to a being created in the image of God. Much of what we offer to public debate is our commitment to this over and above any other ideological position we may hold dear.

It is not enough for a system to "feel right". It must pass this test in the real world. That involves facing challenges and seeking evidence - which is particularly difficult when the issue in question ticks our ideological boxes. Many Christians in good conscience believed Universal Credit would solve poverty - it felt right to many. The disaster came when commitment to the idea blinded people to the evidence of what the reality of the policies effects were.

Any conversation about UBI needs to be clear about its pros and cons. No-one is currently proposing a UBI system that ends means tests, conditionality and sanctions while reducing poverty. I wish such a thing existed, but that option is not currently on offer nor is it likely to be.

I am increasingly concerned because I am regularly being approached by good people from churches who are convinced that UBI can end Universal Credit's inequities while reducing poverty. No one has designed such a scheme and is incumbent on those who promote the UBI to be open about this.

There are other arguments put forward for a UBI around future working patterns and how to better distribute the fruits of people's labour, which I do not have space to address here. But, by design, UBI cannot be a poverty reducing replacement for Universal Credit.

1. Universal Credit

Why do we need a new Benefit system?

Universal Credit is failing. It has hasn't achieved its main aim of being more effective at moving people into work than the system it replaced. Other expectations we might have from a benefits system such as reducing poverty, reducing homelessness or improving people's wellbeing even before COVID it was having the opposite effect. No gain; lots of pain.

Universal Credit's creators believe that low incomes and threatened or actual hardship provide a "work incentive". Tests, threats and sanctions which had been around for a while were taken

to a new level by Universal Credit. Parts of the press argued that many families on benefits deserved to be treated harshly while politicians usually preferred to argue that harsh treatment was the best way of “supporting families into work”. This was always insulting and unhelpful, but as more and more families arrive on Universal Credit due to COVID19 these ideas look more and more at odds with reality.

It has been clear for some time that change was needed but the question is - to what?

The birth of Universal Credit.

Universal Credit-like ideas had been around since the early 1980’s. Iain Duncan Smith first wrote about something that looked like Universal Credit in a newspaper article in 1992³. The basic ideas of using threats of docking benefits to force people to search for work more rigorously and tapering away benefit levels as income increases were already mainstream.

These ideas answered the key question of labour market economists and by 2010 almost all politicians “How do we design a benefits system that provides the greatest incentive to work?”.

Making work pay

The central argument for Universal Credit was “making work pay”. Like any slogan it gives only the comfortable half of the truth. The belief was that people did not choose to work because the difference in what they got in benefits and what they got when earning was too low.

That was solved in 2 ways. The most obvious way was to cut benefits. The other was introduce a complex payment system. The previous system distributed money based on a rather rough assessment of need assessed using family circumstances as a guide. The new system was designed to prioritise “work incentives”. Millions of families had their benefit entitlement changed based on the principle of increasing “work incentives”.

If you are a single person living alone, that is good news. If you are in a couple where one person works, that is bad news. If you are a single parent, that is very bad news indeed.

I cannot imagine that anyone looking at single parents receiving benefit in 2010 would have thought the best way to help them into work is to reduce their benefits relative to single childless people. Ironically, that is what the popular slogan “make work pay” as implemented by Universal Credit was always going to mean.

Threats and Sanctions

The second big change in Universal Credit was the intensified use of threats and sanctions. This comes out of an age-old idea that helping the poor only makes them lazy and less likely to help themselves. Ironically, it is when the economy crashes due to the actions of wealthier people that this idea gains most political traction. The 1834 Poor Law Reform Act, the mass

³ The original scheme was to include the state pension also. Setting the standard for the next 20 years the scheme was supported by unsubstantiated claims that benefits caused people not to work and that there was too much fraud. This was backed by an estimate of fraud levels which was later acknowledged to be untrue. Every verifiable number used in the article was inaccurate. The only exception was a number from an opinion poll that demonstrated that the public mistrusted the poor.

unemployment insurance disallowances of the 1920s, the reintroduction of benefit sanctions in the 1980s and Universal Credit's efficient brutality from 2010 onwards all follow this "the economy crashes so push down harder on the poorest" pattern.

Cross Party Support for Universal Credit

The prevailing ideology of the past 30 years had put markets at the centre. Universal Credit was based on the belief that the labour market would solve poverty. The purpose of the benefits system was therefore to support (in practice, sanction) people into engaging with the labour market and to ensure proper market incentives were operating by making work pay.

Again there was all party consensus that "making work pay" was important and that Universal Credit was a good solution. The debate was around funding and if it could be implemented competently. I admit that in 2012, I was overwhelmingly focussed on the levels of benefit while unthinkingly accepting of the principles Universal Credit used to divvy up the money between families.

Universal Credit – beautifully designed to solve the wrong problems

Universal Credit was a beautiful design. It fitted the prevailing ideology. It solved the problems labour market economists had thought about for a generation. The problem was that the assumptions about the poor that are baked into the design turned out to be all wrong. People don't need to be threatened into work and "work incentives" of the scale provided by the benefit system don't seem to make a lot of difference.

It turns out life is complicated. People are unable or unwilling to work for all sorts of different reasons. It turns out that threats only make finding lasting solutions to those problems harder. It turns out that most people in poverty already work and that threats and "making work pay" don't improve progression. It turns out that neither threats nor work incentives make the sick and disabled well enough to work. Most importantly it turns out grinding poverty destroys a great deal of dignity and potential while providing precious little motivation.

Who knew? Other than every person I have ever met who has had to survive for a long spell on benefits.

Denying reality

It also became clear early on that even if Universal Credit had got people into work at an unprecedented rate, their increased earnings would not make up their losses in benefits. Essentially, the evidence we had in 2013 was that the best case scenario was people working harder for greater levels of poverty.

The attempts to hide and distort this evidence in order to bolster the case for Universal Credit led to the churches writing the report "The lies we tell ourselves" and the Economist to write the harsh but accurate words "*Over the last few months, as welfare cuts have started, questionable numbers have floated out of [Work Pensions Minister's] office into the public debate like raw sewage*".

The idea of Universal Credit was worth exploring. Making work pay is not intrinsically a bad mantra. The question is: at what cost? The point at which Universal Credit was destined to be a damaging failure was when its supporters refused to acknowledge there was a cost and then deny the reality of what was happening.

2. Falling in love with Universal Basic Income

Universal Credit or something like it has been the aim of benefit system designers across the world for a generation. There really aren't many well thought out alternatives out there. The only "new"⁴ idea is Universal Basic Income. It is beautifully simple – an unconditional payment to every person in the nation which varies only by the recipients age.

Unconditional means no more threats and sanctions. The current system requires people to fill in complex forms to prove their income and savings and a whole lot else before they get help. This is intrusive and often needs to be done at the same time as dealing with the crisis that caused the family to need the benefit system in the first place. UBI wouldn't need to know any of that as it would just keep paying whatever happens.

No more telling the Department of Work and Pensions about your love life – if you spend a few nights at your partners house, or you move out of your partners house your benefit won't be affected, you there is no risk of being accused of fraud.

UBI "makes work pay" much more elegantly than Universal Credit. UBI isn't gradually removed as you earn more as Universal Credit is. In most schemes, the personal tax allowance is removed meaning Income Tax is paid on any earnings, but the UBI payment is left as an untaxed minimum income. UBI has long been supported by strongly "free market" economists and think tanks⁵ partially because it would lead to fewer distortions to the labour market.

The two most common criticisms of UBI are easily discounted:

1. **People won't work:** The evidence is that mostly people choose to work even if they have a guaranteed basic income. They may take longer to seek out work that they want to do, but the payoff is that they are more likely to find work that is sustainable and better suited to them.

The common practice of threatening families that are judged not to be trying hard enough to find work with the removal of their benefit is generally counterproductive. The damage done by threat or reality of stopping support for families is in the long run much more costly in both human and financial terms than any advantage gained by wielding such threats.

⁴ But actually very old. See here for a brief history of the idea:

<https://basicincome.stanford.edu/about/what-is-ubi/#:~:text=Ancestors%20of%20UBI%20were%20discussed,the%20form%20of%20a%20%E2%80%9Csocial>

⁵ Often under the name "negative income tax".

2. **It costs too much:** UBI schemes by their nature move a lot of money around and critics often throw around big and even inflated numbers. That is never a reason to reject a policy. The important question is what do you get for the money and is it worth the price?

The NHS costs around £150Bn a year, which is a lot. However, most people agree that it is worth it.

UBI just feels right

Some are drawn to UBI for reasons that are most associated with the right of British politics. They see it as a way of supporting unemployed people that minimises interference with work incentives. Moreover, by providing an unconditional income it offers every individual the opportunity to engage with the market potentially reducing the need for the state to provide other services.

However, today's strongest UBI advocates, certainly within churches, have come to UBI because they are appalled by the threats and sanctions of Universal Credit. They are seeking a system that genuinely reduces poverty and treats people with dignity. The simplicity, the lack of means tests and the equality offered by UBI seemed to be an ideal solution. Equal, unconditional treatment feels right.

But then again, so did "making work pay" and that didn't turn out well.

3. Falling out of love with UBI

All benefit systems – even Universal Credit – flex with families' needs. The parts of the current benefits system that the churches have been most concerned by are where it deliberately refuses to meet needs – benefit sanctions, the household benefit cap, the 2-child rule and the household rent cap. In each case, the system assesses need but refuses to meet it in order to change families' behaviour.

A Universal Basic Income by its very design cannot flex with needs. It cannot change to respond to housing costs, childcare costs or disability. It does not do this because it hopes to change behaviour - it does it because it replaces the principle of meeting needs with a principle of equality⁶.

To use housing costs as an example. The average rent in inner London is £1,700pcm while in the North East it is £495. A UBI rate that allows a family to rent in London would be astronomically expensive and create huge inequalities in living standards across the UK. A UBI rate that

⁶ Universal Credit's principle of "making work pay remains" but as discussed without creating the same problems

supported the average English rent of £700pcm would create swathes of homelessness across the South East.

Beveridge in 1942 wanted to have nationally determined rates of benefit but housing costs defeated him. Ever since housing benefit rates have been set locally, the only exception being nationally set caps on payments which are a major driver of homelessness. Housing support is the most expensive part of the current benefit system after the state pension and affects around 5 million households. This is neither a new nor a minor issue.

Most UBI proposals therefore keep housing support separate from UBI. Under current rules this means form filling, intrusive means tests, conditionality and sanctions. You may argue we could change the housing benefit system to be less intrusive; that's true but we can make that change tomorrow with or without a UBI.

Compass and Joseph Rowntree Foundation Report on UBI

One of the challenges of assessing UBI is there is no single proposal. The thinktank Compass was commissioned by the Joseph Rowntree Foundation to look at different potential UBI schemes. While they did not explore every possible scheme, they did look at a good range. The thinktank is holding "UBI Conversations" within faith communities at the moment so it seems appropriate to look at their research.⁷

In all the schemes they tested, replacing the non-housing parts of Universal Credit with a UBI that paid similar rates would cost in the order of £50bn⁸ more while increasing poverty – especially child poverty (by 8 to 10% across the different schemes tested).

Even these more costly and poverty inducing schemes retain means tests for housing support. People unable to work because of disability would not get the higher rates that some get now, but the hated Work Capability Assessment would not be needed. Personal Independence Payment, which is not means tested, would remain as would its assessment.

These results are fairly damning of the concept of UBI as a tool in fighting poverty (and are typical of other UBI models). JRF reaches this conclusion and summarises the report [here](#)⁹.

Despite this the Compass report is very positive about UBI and emphasises a "Feasible Universal Basic Income Now". That scheme decreases poverty and reduces inequality. However, it does this by leaving Universal Credit and the rest of the benefit system unchanged while offering a top up UBI of up to £61 a week. This hybrid scheme would lead to around £140Bn extra taxation and spending.⁸

The modelling indicates that at least £140Bn more in tax would be taken from the top fifth of households and distributed to the bottom four fifths. To give an idea of scale of this intervention

⁷ <https://www.compassonline.org.uk/campaigns/basic-income-hub/>

⁸ The numbers given where £43Bn more after an increase in the basic rate of tax to 30%

⁹ Universal Basic Income - not the answer to poverty: <https://www.jrf.org.uk/blog/universal-basic-income-not-answer-poverty>

the entire of Universal Credit (and the benefits UC is intended to replace) cost £63Bn last year. The largest part of the current social security budget is the state pension at £111.4Bn.

It appears desirable to use the tax system, to address inequalities in income and wealth as well as well as to tackle poverty. It is however clear that this this is an extremely inefficient way of using £140Bn¹⁰ of taxation if your core aim is to reduce poverty.

Targeting spending comes at the cost of means tests – but with £140Bn raised solely from the highest 5th of earners, even very light touch means tests, would give you a good chance of ending mass poverty in the UK.

4. Is Universal Basic Income a potential replacement for Universal Credit?

This paper explores UBI as a potential replacement for Universal Credit. It is possible to argue for UBI on other grounds. Some on the right of politics see it as facilitating labour markets to function better and as a replacement for many services provided by the government. Some on the left argue that it can be used to promote equality and foster a culture that is more respectful of human rights and dignity. It appears likely that both are possible depending on how a potential UBI is perceived and implemented and what other policies are put in place at the same time.

A benefit system that reduces poverty must respond to need

UBI is given out based on a principle of equality but rejects the principle of need. If you ignore family's needs the unsurprising result – confirmed by Compass's modelling - is more poverty.¹¹

The data presented by Compass and the Joseph Rowntree Foundation indicates that as a replacement for Universal Credit, UBI is a non-starter. Indeed, Compass's preferred hybrid UBI scheme keeps Universal Credit in place.

A UBI scheme that keeps Universal Credit does not tackle the problems we are faced with today. Indeed it may even intensify the problems. A UBI would move some families above the threshold for claiming Universal Credit. Those remaining on Universal Credit would be the poorest of the poor and ripe for stigmatisation.

¹⁰ That is not quite a fair comparison as the prosed UBI scheme taxes and distributes money often to the same people, but the net change is only in the top fifth of households.

¹¹ Mathematically it would be possible to get around this by throwing astronomical sums of money at the problem. However even if that were possible it would not be desirable as because of cost variations especially in rents it would create huge new inequalities in living standards across the country.

5. A way forward

As Christians, our worldview is based on our understanding of humanity as created by a loving God, that values each person and requires that we offer each other the respect and dignity due to a being created in the image of God. Much of what we offer to public debate is our commitment to this over and above any other ideological position we may hold dear.

It is not enough for a system to “feel right”. It must pass this test in the real world. That involves challenge and evidence which is particularly difficult when the issue in question ticks our ideological boxes. Many Christians in good conscience believed Universal Credit would solve poverty – it felt right to many. The disaster came when commitment to the idea blinded – sometimes deliberately – people to the evidence of what the reality of the policy’s effects were.

The price of not targeting money to the poorest is more poverty. The price of targeting money to the poorest is means-tests. UBI is not a magic wand that can change that equation. The modelling can show you the relative costs and Compass estimates that the cost of getting rid of some but not all of the means tests is around a 10% increase in child poverty.

Any conversation about UBI needs to be clear about its pros and cons. No-one is offering a UBI system that ends means tests, conditionality and sanctions while reducing poverty. I wish such a thing existed, but that option is not currently on offer nor is it likely to be. I am deeply concerned about this because many good people in churches are telling me that is what they think UBI offers.

UBI is not an effective poverty fighting tool but many of its benefits are on offer in simpler ways.

- If you want to end conditionality and sanctions, that simply requires a change in the law. The requirement to “actively seek work” under threat of a sanction did not exist from the 1930s until the 1980s. People chose to work in record numbers. It isn’t a naïve pipedream. Indeed, the recent Finnish UBI experiment offered money only to people who were unemployed at the start of the study – it was in effect a great example of how a well-funded unemployment benefit system can work well without sanctions.¹²
- If you want an end to the Work Capability Assessment, removing conditionality and sanctions would do away with the need for that for many (but not all). Those who are entitled to more money to compensate for the added costs of disability or sickness would still need to be assessed in some way. A UBI would not change that therefore finding a more humane way of making that judgement is always going to be important.

¹² Basic income experiment <https://www.kela.fi/web/en/basic-income-experiment?inheritRedirect=true>

- If you want poverty and inequality to fall, a small fraction of the huge shifts in taxation and expenditure UBI proposes could transform the levels of poverty in the UK.

UBI alone is not a poverty reducing alternative to Universal Credit. The conversation has however exposed a really important truth – our economy with its taxes, benefits, wages and other flows of money was designed. People chose to make it that way and therefore we can choose to change it. For a long time it has felt that we were trapped by iron laws of economics and that made the injustices of poverty and inequality inevitable. The debate around UBI shows that we are realising that this is not the case; that the big changes necessary to put care for people and planet at the centre of economy are possible. Let's keep the ambition, but use the best tools available.