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# Steps from Universal Credit to a UBI - or Minimum Income Guarantee

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# Motivation



To examine the distributional and cost implications of reforms that can be considered incremental steps from the existing welfare state in the UK towards a Minimum Income Guarantee, UBI or other alternative, depending on your perspective



To design these reforms so that policymakers can use the analysis to assess the costs and benefits of different options



To situate discussion of the politics of UBI in the UK in an institutional welfare and fiscal context.

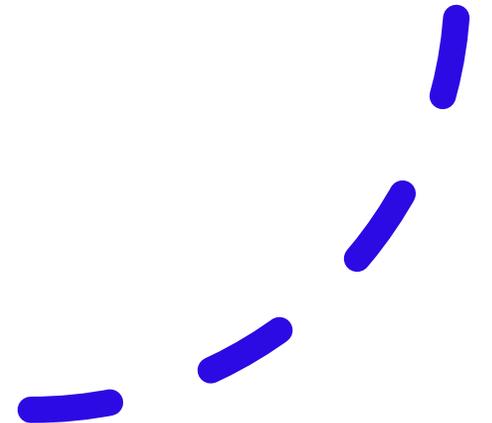
# The politics of UBI

## Beyond 'cheap support'

Parties tend not to commit to UBI as a policy in manifestos but rather one of the following (Chrisp 2020):

- Experiments
- Government Commissions
- Steps or incremental reforms

What kind of steps?



## **The UK welfare state in context**

- UK welfare state is liberal & ‘Beveridgean’
- Minimum, flat rate benefits, not earnings-replacement
- High level of means-testing for household benefits
- ‘Work-first’ – leading to extensive role for sanctions and conditionality
- Limited role for trade unions and employers in decision-making and administration
- Cuts to working age welfare state in era of austerity (2010s), including means testing of Child Benefit, but protection of pensioner benefits and creation of single-tier, more generous State Pension

# Reforms to Universal Credit

Age group / benefit	Step	Modelling implications
Working age population / Universal Credit	Auto-register all households/residents in UC system	Increase take-up to c. 100%
	Remove job-seeking conditions from standard allowance in UC	
	Remove (or increase threshold of) wealth/savings from means test	Extend eligibility of UC standard allowance to those in households with higher savings/wealth
	Reduce taper rate	Taper rate to 40%
	Increase level of standard allowance in UC	Increase to £120/week for single households and £200/week for couples

# Reforms to Family Benefits

Age group / benefit	Step	Modelling implications
Children / Child Benefit	Remove High Income Child Benefit Charge	Extend child benefit to higher earners
	Scrap 2-child limit in UC	Extend eligibility to 3 <sup>rd</sup> child and more
	Increase Child Benefit level	Increase to £30/week

# Modelled tax implications

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For each policy or policy combinations we report the gross cost and then the distributional consequences, if this was:

1. Externally financed (no changes to income tax)
2. Funded through progressive changes to income tax – i.e. pp increase on each tax band at a ratio of 1:2 wrt the basic rate vs. higher and top rate (with a minimum increase of 0.2pp) - i.e. a 1 pp increase in the basic rate to 21% would mean the higher rate would be 42% and the top rate 47%

*Modelled using UKMOD at Essex University. 2019 FRS data.*

NB The first step modelled was increasing take-up to 100%. This would cost £12.802bn.

All subsequent calculations of cost and tax changes were done in reference to baseline of 100% take up



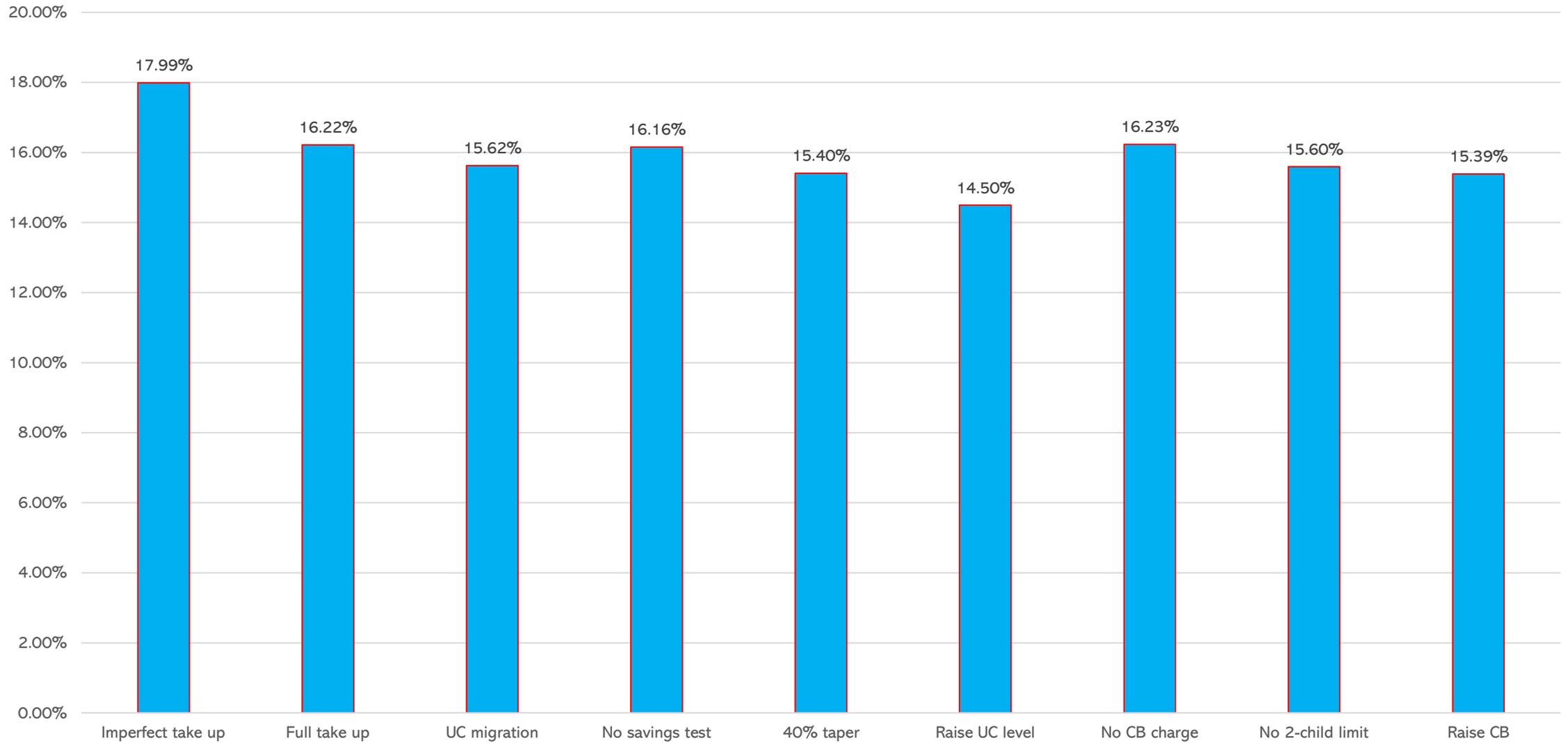
100% take up  
assumed to be  
consequence of:

Auto-registering all residents in UC  
and removing sanctions

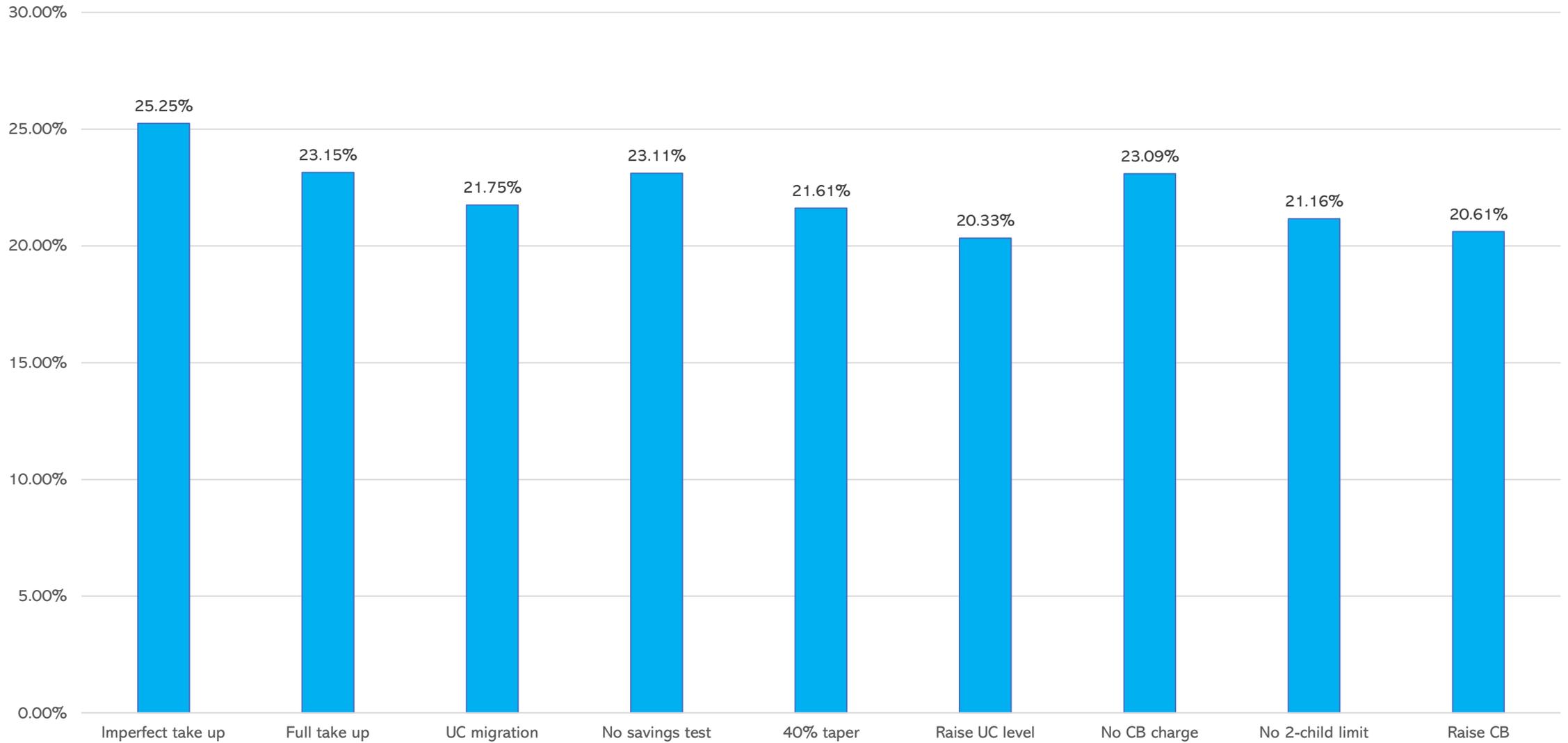
# Costs and tax implications for individual reforms

Individual policy reform	Estimated gross cost	Suggestive possible tax implications
Finish migration to UC	£1.272bn	<0.2pp
Remove wealth/savings from UC means test	£0.468bn	<0.2pp
Reduce taper rate to 40%	£9.221bn	Basic: +0.8pp; Higher: +1.6pp
Increase standard allowance (£120/week & £200/week)	£11.108bn	Basic: +1pp; Higher: +2pp
Remove High Income Child Benefit Charge	£3.521bn	Basic: +0.2pp; Higher: +0.4pp
Scrap 2-child limit in UC	£1.511bn	<0.2pp
Increase child benefit (£30/week)	£4.765bn	Basic: +0.4pp; Higher: +0.8pp

### Poverty rates AHC after introduction of individual policies



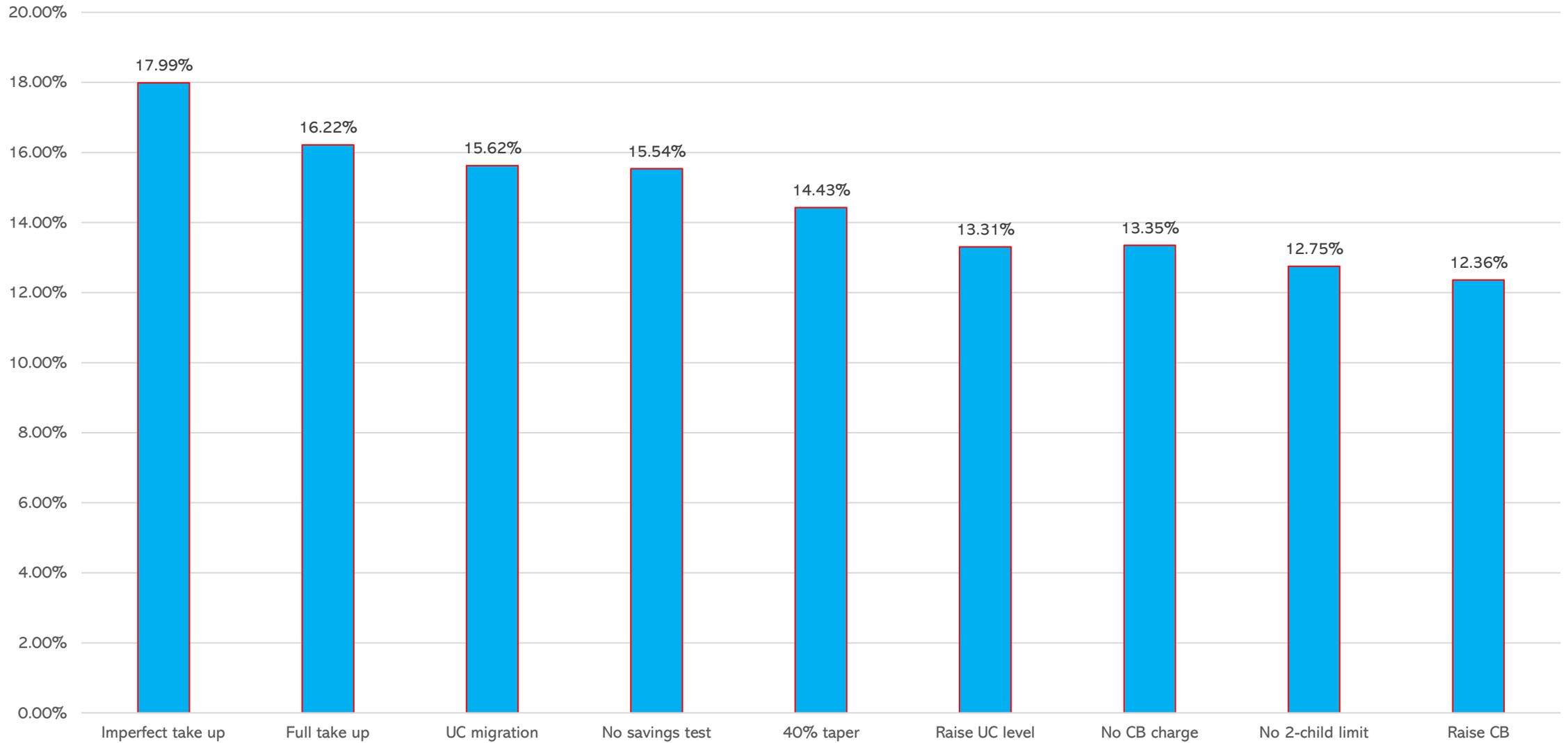
### Poverty rates (children) AHC after introduction of individual policies



# Costs and tax implications for cumulative reforms

Individual policy reform	Estimated gross cost	Suggestive possible tax implications
Finish migration to UC	£1.272bn	<0.2pp
Remove wealth/savings from UC means test	£1.897bn	Basic: +0.2pp; Higher: +0.4pp
Reduce taper rate to 40%	£14.403bn	Basic: +1.2pp; Higher: +2.4pp
Increase standard allowance (£120/week & £200/week)	£33.863bn	Basic: +3.2pp; Higher: +6.4pp
Remove High Income Child Benefit Charge	£37.383bn	Basic: +3.6pp; Higher: +7.2pp
Scrap 2-child limit in UC	£39.56bn	Basic: +3.8pp; Higher: +7.6pp
Increase child benefit (£30/week)	£46.124bn	Basic: +4.4pp; Higher: +8.8pp

### Poverty rates AHC after introduction of cumulative policies



# Other potential reforms - not looked at here

- Universalise State Pension (to all residents without a contribution record) – a logical extension of existing reforms
- Introduce Young Person's Basic Income (extend/reintroduce an EMA style payment) – integrate all elements of support for young people into a single allowance or payment
- Individualise entitlements to elements of UC – this would be the final and most radical step to UBI for working-age adults – akin to the reform of taxation but a major change in the UK welfare state



**Thank you**

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