

Background

This consultation paper is presented as a stage in the development of new Party policy in relation to Universal Basic Income. It does not represent agreed Party policy. It is designed to stimulate debate and discussion within the Party and outside; based on the response generated and on the deliberations of the working group a full policy paper will be drawn up and presented to Conference for debate.

The paper has been drawn up by a working group appointed by the Federal Policy Committee and chaired by Paul Noblet. Members of the group are prepared to speak on the paper to outside bodies and to discussion meetings organised within the Party.

Comments on the paper, and requests for speakers, should be addressed to: Christian Moon, Policy Unit, Liberal Democrats, 8 - 10 Great George Street, London, SW1P 3AE. Email: policy.consultations@libdems.org.uk

Comments should reach us as soon as possible and no later than Monday 7th June 2021.

Further copies of this paper can be found online at www.libdems.org.uk/policy_papers

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1. Why a Universal Basic Income?

1.2 The UK's social security system is deeply broken and badly underfunded. Benefits for working age adults are perhaps especially inadequate, with a system that leaves too many gaps and is too arbitrary and punitive for those needing support. The botched roll-out and savage cutbacks to Universal Credit overseen by the Conservatives since 2015 have deeply exacerbated both lack of trust in the system and the simple, brutal human indignity of people being left without enough money for a decent standard of living.

1.2 Low income levels and income instability combined have led to deep-rooted poverty right across the UK, especially among women and some ethnic minority groups. Urgent measures to solve this problem are badly overdue, especially as the numbers of people out of work and in hardship have spiralled in the past year. As well as our simple belief that everyone should have enough money to live on, poverty is also one of the largest factors in reducing the personal freedoms that liberals cherish as it reduces access to opportunities and undermines trust across society.

1.3 A Universal Basic Income can help address a number of these problems. The core principle of all UBI implementations can be summed up as paying a fixed rate payment to everyone, on a regular basis, to provide support for living costs. Additionally, a UBI should be part of a system providing sufficient income to ensure that those not in work – including those who actively choose to pursue other goals, not simply those who cannot find work – are able to cover a reasonable baseline level of living costs.

1.4 The universal nature of UBI provides stability and continuity when income from other sources fluctuates: it does not need to be applied for when circumstances change, and due to its universality there is no social stigma in receiving it. These characteristics make it especially good not just for reducing cashflow problems for those with highly variable income but also for building a resilient economy and society in the face of threats like the current pandemic. The higher the Universal Basic Income and the bigger the contribution it makes to our

systems for guaranteeing a minimum income, the stronger these effects.

1.5 The guarantee of an unconditional minimum income floor, to which UBI contributes, is an avowedly liberal policy that speaks to the core Liberal Democrat objectives of fighting poverty, ignorance, and conformity. It has an important effect on poverty reduction by stabilising incomes for the worst off in society, and contributes to a new level of personal freedom by helping support people to choose paths other than immediate work: this could include retraining as adults, starting small businesses, refusing jobs with unacceptably poor working conditions, community volunteering, caring for others or healing ourselves. This may particularly benefit women, who are more likely to take time outside the workforce or in part-time work in order to fulfil unpaid caring roles.

1.6 A UBI would also have significant distributional impacts within households. Currently, Universal Credit is paid at the household level, meaning that one member of the household receives the full payment. A UBI would be paid to each household member individually, meaning that all members of a household receive some income directly. This would especially impact households affected by coercive control or domestic abuse, where the structure of universal credit has been cited as a factor preventing people, mostly women, from leaving abusive relationships. Given significant evidence, both in the UK and internationally, that men and women spend money differently, this would also be likely to positively impact children's welfare in low-income households.

1.7 An erosion of trust in politics and society at large may also be addressed in part by the introduction of a basic income payable to all. UBI is a policy that starts to move us away from a social security system based on the principle that people need to be coerced into work a towards system based on the state trusting people with their own lives. That social bond of trusting one another throughout society to forge our own paths, a trust on which any open and democratic society must

be founded, is core to the UK that we as Liberal Democrats seek to build.

1.8 This consultation paper has been written in response to Liberal Democrat conference voting to adopt a Universal Basic Income in Autumn 2020. The working group was asked by Federal Policy Committee in light of that motion to present practical and deliverable Basic Income proposals, taking into account the need for funding to be just and equitable, the need to fund other policy priorities alongside UBI, and the need to protect the incomes of low-income and vulnerable households: that is what this report endeavours to deliver. The past year has shown the possibilities of wide-scale government action to support living costs: we can now build a more secure system to do so for everyone, for the long term.

2. Current Policy

2.1 Liberal Democrat policy already includes a wide range of social security changes. In particular, in the area of household income support, these include reducing Universal Credit waiting times, investing more in the system, abolishing the sanctions system, and removing the two-child limit and benefits cap. Other changes detailed elsewhere in Liberal Democrat policy in recent years include wide-ranging improvements in disability support, and increased sick pay and carers' allowances. These changes, which are unaffected by the proposals in this paper, would provide real help to families and individuals in hardship and help to reduce child poverty in particular.

2.2 Our proposed plan would not permit immediately phasing out income support benefits for low income households, such as the current Universal Credit basic rate. Universal Credit reforms to abolish sanctions and conditionality, as previously passed by party conference in the 2019 paper *A Fairer Share for All*, are therefore still necessary: we envisage all the systems proposed working alongside a Universal Credit system without any tests or claimant prerequisites other than financial means testing to set an appropriate claim level, with jobseeking support services being separated fully from income support systems.

2.3 Our existing policies help realise the benefits of UBI and would contribute to the guaranteed income support discussed above. The removal of sanctions conditionality could additionally be delivered faster than the roll-out of UBI itself. Means-tested benefits will always provide less income stability and more claims bureaucracy than an equivalent UBI – but whilst there is a need to include them in the system, we would ensure minimised conditionality such that they could combine with the UBI to form a secure minimum income floor.

2.4 The presence of a UBI does supersede the party's older commitment to provide living cost support for start-up businesses, as these payments would be unnecessary with the UBI.

3. The Scope of the Policy

3.1 One of the most important questions regarding a UBI is who is permitted to claim it. This was set out in our scope as all longer term UK residents. The precise definition of this for non-citizens would have to be set at the time of implementation pending future changes to the immigration system, but we would foresee it only excluding those intending to be on short-term stays in the country.

3.2 In the near term at least, we do not propose that the scheme should cover pensioners and children, who are already covered by guaranteed payment schemes in the form of the state pension and child benefit respectively. While not strictly universal, these schemes have many of the characteristics of a UBI, and replacing them at the same time as introducing a UBI would significantly add to the complexity and cost of the policy. For this reason, our models tend to assume payment specifically to working age adults not eligible for either (18 to pension age). We have also assumed that any other aspects of taxation and benefits affecting other groups are unchanged by our policy: for example, the proposals made below in relation to personal allowances would not apply to pensioners.

3.3 There are a number of areas of social security explicitly placed outside the scope of this working group in our remit. Due to the extremely variable costs of payments needed for people with disabilities, and the highly variable nature of housing costs across the UK, these targeted benefits were explicitly excluded from the working group's remit. We envisage that they would be paid alongside any UBI by separate properly assessed and suitably generous benefit schemes. All other benefits under the current system would also continue to be paid as previously, excepting where income from the UBI affects levels or eligibility due to means testing requirements (as discussed in section 4).

Question One: *Is our approach of focusing on UBI as a working-age benefit an appropriate one?*

4. Our Proposed Model

4.0.1 The working group produced a wide range of models at different cost ranges for a basic income. All levels modelled posed some significant difficulties: lower levels would have proportionally less impact on improving and stabilising low incomes, necessary for the success of the policy objectives, whereas higher levels required very large up-front tax rises on a scale that could be politically difficult.

4.0.2 The group agreed that the main benefits of UBI would be best delivered by a significantly higher payment level than those discussed in our modelling below: further increases are discussed in section 6 of this paper. Concerns were, however raised over our ability to effectively estimate the revenue gained from a rapid move to significantly higher levels of personal taxation, the need for households to have time to adjust to new financial circumstances, and our ability to make the case for those tax rises to voters still unfamiliar with how a basic income works and what difference it could make for them and their communities. Additionally, the necessity of leaving fiscal room for tax rises to fund other manifesto priorities was raised.

4.0.3 We therefore propose a model that would set an introductory basic income rate, with the intention of raising it thereafter. This would not be taxable but would be classified as income for the purpose of means-testing Universal Credit. So, for example, if we were to use the £60pw option, someone currently receiving £94 UC per week at the current single persons basic rate would be given £60 income from the UBI. They would then would have £37.80 of their universal credit tapered out and so would be left with a new total income of £116.20 per week. Running the two systems alongside one another for these levels of basic income thereby makes the scheme significantly more distributionally progressive compared to models we examined that abolished rates of Universal Credit but did not improve income levels for current claimants.

4.1 Funding and Levels

4.1.1 An important component of the funding of any of the options under consideration will be significant reductions of the personal income tax allowance and the National Insurance Primary Threshold for people of working age – with the exact amount dependent on the level of the UBI. The additional tax paid by individuals will largely offset (but never exceed) the benefit from the UBI, thus very largely covering the cost of the UBI for all taxpayers for the less generous schemes. We propose in all cases leaving some level of Personal Allowance (at least £2,500 a year) and a National Insurance Primary threshold (at least £50 a week) in place as this is helpful to those on lower incomes and reduces the administration costs by not bringing very low incomes into the tax base.

4.1.2 Further funding will also come from some reductions in welfare expenditure as the UBI reduces households' dependence on Universal Credit and other means tested welfare benefits.

4.1.3 The remaining funding requirements, after the above reductions in income tax personal allowances, national insurance primary threshold and reduced benefit expenditure have been taken into account, are estimated as follows:

Potential UBI	Estimated annual cost
£45 per week	£13bn-£18bn
£60 per week	£22bn-£28bn
£75 per week	£48bn-£56bn
£95 per week	£84bn-£93bn

4.1.4 The costs increase quite substantially for schemes over £60 a week because beyond that point, reductions in personal allowances and national insurance thresholds are no longer sufficient to entirely cover the cost of providing the UBI for taxpayers.

4.1.5 For the range of schemes in the table above, the remaining funding requirements are quite substantial – particularly for the more generous of these. To provide some context:

- Retaining the additional £20 added to the standard allowance for Universal Credit costs approximately £6bn a year.
- The proposed additional spend on benefits in the 2019 manifesto to cover the recommendations in A Fairer Share for All (including scrapping the 2 child limit, the benefit cap, the bedroom tax and financial sanctions on UC among other proposals) was £5bn a year.
- The 2019 manifesto commitment to invest in schools was £11bn a year and the proposed investment in early years and child care was £14bn a year
- The total spending rises in the 2019 manifesto added to just over £62.9bn a year.

4.1.6 Detailed plans to provide funding for any scheme will need to be developed when we prepare our manifesto. Likely yields from some possible changes to existing taxes are set out in the table below, although we should caution that these estimated yields from small increases may not permit like for like projections to much higher increases of the same tax.

Corporation tax – each additional 1%	£3.2bn
Restructuring Air Passenger Duty to Frequent Flyer Levy	£5.0bn
Capital Gains tax – each additional 1%	£0.1bn
Income tax – each additional 1% on all rates	£7-8bn
Income tax – each additional 1% on higher and additional rates	£1.5bn-£2.5bn

Each 1% increase in national insurance employee additional rate (Currently 2%, affecting those with incomes over around £50,000)	£1.2bn
Each 1% increase in employer rate of national insurance	£6.6bn

4.1.7 It is also possible to consider new taxes:

- The party is separately reviewing its policy on carbon taxes, which may raise a small additional amount (less than £5bn if the amounts from additional aviation taxes covered in the above table are excluded). We would expect that output from this might decrease eventually as emissions fall.
- A possible replacement of existing property taxes by a Land Value Tax may lead to the raising of additional amounts depending on the level at which the tax is set. This is currently difficult to estimate due to the lack of an appropriate land value registry.
- A wealth tax could be considered, though there are arguments that recurring (as opposed to one-off) wealth taxes are difficult to implement, and so this may be less appropriate here.
- In the very long run it may be possible to fund part of a basic income from a sovereign wealth fund, but endowing a wealth fund of sufficient scale would also require tax rises now.

4.1.8 The party will need to make a judgement about potential consequences of these potential tax increases, and the trade-offs in choosing whether to spend additional amounts raised on Universal Basic income or other plans. Tax increases to fund a Universal Basic Income would have quite different impacts both on personal budgets and the economy to those for other areas – because they are far more directly funnelled back into household spending – though this difference may not

always be easy to get across to voters before they have been able to experience such a scheme in operation.

Question Two: *Based on the above analysis, at what level do you think we should set an introductory Universal Basic Income scheme?*

Question Three: *Given that the recommended scheme does not in and of itself provide the entirety of a person's income, should we frame it as an introductory rate universal basic income as presented here, or are there better options for how we should refer to this proposal?*

5. Deployment, Schedule and Payments

5.1 Rolling out a UBI should be done as fast as possible, but will nonetheless take time, especially to ensure that the sorts of problems faced by the Universal Credit roll-out are not repeated. We therefore recommend that we should aim for a two year roll-out after such a policy is legislated for: this time would be used primarily to produce the database systems needed to administer payments and ensure maximum coverage for the system to ensure that nobody was left out.

5.2 One of the primary advantages of a genuinely universal payment is that, as mentioned above, it carries no stigma to be claiming it. We can further improve on this by ensuring that it is seen as outside the Universal Credit system: as such, we recommend that the payments be administered by HMRC, rather than by the Department for Work and Pensions.

5.3 We believe that it should be possible to provide the UBI on a weekly or monthly basis as per the payee's preference. For those without bank accounts, a cash or payment card system could be implemented along the lines of similar mechanisms currently available to benefits claimants. We would also explore the possibility of people being able to opt to claim their UBI as a tax credit, which could greatly simplify claiming for a large number of employed claimants.

Question Four: *Do you agree that HMRC is the appropriate body to administer a UBI?*

Question Five: *Are there additional deployment issues we need to cover within this paper? Are there impacts on specific groups or protected characteristics that we have not fully considered regarding deployment?*

6. Developing Universal Basic Income

6.1 The models proposed in this paper are not the extent of our ambitions for a universal basic income: they represent a system that, with proper preparation as laid out in the previous section, could be implemented in one go with limited need for wider economic adjustment. However, once this is implemented, the possibility of expanding the level or scope of payments over time, with relevant increases in taxation to account for them, would help to bring more people off means-tested benefits as their incomes rose past the point where these were needed, and would tend to improve the efficacy of the system as a whole for combating poverty and providing living cost support.

6.2 If we do choose to plan for future increases, this could be left as an aspiration to be assessed after the initial implementation stage laid out here. Alternatively, progressive year-on-year rises could be legislated for upon introduction of the UBI. Making expected increases semi-automatic in this way, with a set of assessment criteria to assess progress and impacts, would reduce fiscal flexibility and require legislating pre-emptively for further tax increases but would help ensure future goals for the policy were reached and better allow households to plan ahead.

6.3 The working group has considered a number of taxation options on both income and wealth. As noted in section 4, there are a wide range of possible taxation options available, though we were concerned that estimating take from any one of them would be difficult if subject to very rapid increases in level. We believe that our phased approach could better allow us to assess the possibilities for funding future increases with alternative mechanisms, such as land value taxes or sovereign wealth funds as discussed above.

6.4 A further possible future change to the system as shown could be to combine and dovetail it better with those parts of the population

excluded – that is, with child benefit and pensions - allowing for smoother transition between different benefits at different ages.

Question Six: *Should we propose specific medium or long term targets for expanding UBI, such as suggesting that it should eventually reach rates sufficient to taper out the couples, or the higher individual, rates of universal credit?*

Question Seven: *Should we propose that medium-term targets for expanding UBI be legislated for, or left as matters for further work after implementation?*

Question Eight: *Should we propose that in future, we should work towards rolling pensions and child benefits into the UBI?*

Question Nine: *Are there any other matters the working group should consider, or more general feedback on this paper and our approach? Should we have included other mechanisms and forms of income guarantee in our scope?*