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Realising a Modest Basic Income

Ledger Sheet Approach

- When Basic Income (BI) is discussed it is not unusual to use a ledger sheet approach – list potential credits and debits to assess the balance of benefit.
- Problem: many of the claimed credits and debits are contestable. For instance, it is claimed BI would reduce inequality, given the strong redistributive effect towards the low-income groups.
- However, if – as Piketty shows – the historical logic of capitalism generates greater returns to capital (expressed as $r > g$), then we might find BI providing a once-off impact only, while the underlying logic of inequality generation is maintained.
- Second, the income-equality effect could be off-set by a decline in public services and social insurance supports given that many models would pay for BI by eliminating social insurance and commodifying services.

Ledger Sheet Approach

- On the debit side, it is often argued that BI could have disincentivising effects on labour market activity. In many cases this is code for *'give people loads of money and they will stop working'*.
- However, while it can't be considered conclusive, the limited experiments in Manitoba, Namibia, India (to name a few) show just the opposite.
- Rather than lay about all day watching repeats of Friends on big screen TVs, people respond by generating economic activity through business start-ups, return/continue in education, care for family members – with measurable and positive impacts on mental health, skill development and even political activity.

The Challenge of Transformation

- Probably the biggest objection to be overcome by proponents of BI is the very reason proponents argue for BI – that it would involve a *transformation*, or a systemic break, in the way we engage in jobs, work, social activity, etc.
- Except in extreme circumstances, societies tend to shy away from systemic breaks (these tend to be forced from outside – war, natural disasters, humanitarian or economic crisis) and opt for incremental progression, building on current practices and institutions.

Transformation-Avoidance

- Transformation-avoidance is informed by the difficulty of reversing policies that have unforeseen or harmful effects. In the case of Irish Water or the High Court rulings on Joint Labour Committees these policies and developments were easily reversed – largely because it was relatively painless or unproblematic from a systemic perspective (whatever about particular political fall-outs).
- The same cannot be said of BI which would entail numerous systemic changes in tax, social protection and labour market practices. If, after, a period of time the 'experiment' did not work, it would be difficult to unwind in a timely and cost-efficient manner.

Costs, Opportunity Costs and Dead-Weight

- A significant objection to BI is cost. Micheál Collins (NERI), - based on social protection, poverty line and minimum essential standard of living payments –finds BI costs could range from €35 to €64 billion, funded by flat-rate income tax from 44 to 88 percent. Social Justice Ireland finds the cost close to €40 billion, funded by a flat-rate income tax of 45 percent.
- Opportunity costs are potentially high. Irish spending on public services needs to increase by over €10 billion per year to reach the EU-15 average while investment needs to rise by nearly €5 billion to reach long-term average. BI costs could crowd out this expenditure.
- There could be considerable dead-weight costs. If BI is principally seen as an anti-poverty policy, then reducing at-risk poverty and deprivation rates could be achieved at considerably less cost than BI (though BI is more than just an anti-poverty measure).

Impact on Social Wage

- BI replaces social protection payments (though allows for special payments to protect particularly disadvantaged). This could rule out an expansion of the 'social wage' (employers' social insurance). In the EU the social wage provides substantial income supports:
 - Pay-related unemployment and sickness benefit
 - Pay-related maternity benefit and generous family supports (e.g. child-raising allowances)
 - Pay-related old-age pensions, obviating the need to rely on unreliable private pensions
- These pay-related benefits can reach up to 100 percent of pay, smooth out income cycles and provide the economy with strong automatic stabilisers.
- To reach EU levels, the social wage – or employers' PRSI - would have to more than double (an increase of up to €7 billion).
- BI could crowd out the social wage.

Limited Fiscal Space

- In the short-medium term, there is little fiscal space for increased expenditure without significant tax rises. While the Government nominally has €11 billion over the next five years, the Fiscal Council has claimed it is much less due to demographic demands and inflation.
- The recent 'Summer Statement' shows that while current spending (public services, social protection) will increase by €6.7 billion. However, after inflation, this figure falls towards one to two billion. Spending in the fiscal space will barely keep pace with inflation.
- These figures could now be revised downwards with Brexit.

A Transitional Strategy

- None of the above should be taken as ruling out BI. Highly likely that a BI would be introduced in stages, rather than on an 'all-in' basis. A Partial Basic Income (PBI) could be a first step in a transitional strategy. A PBI would:
 - Be compatible with the fiscal space
 - Accept the need for prioritising public services
 - Eschew a systemic break and be implementable within the current tax / social protection regime
- Important political consideration: a PBI could be presented as a stand-alone proposal. It can begin to fulfil the potential of BI and win popular support without demanding that people support a full BI. Transitioning to BI could be partially based on the success of PBI.

PBI: Reforming Tax Credits

- Personal tax credits (single, married, PAYE and the new self-employed credits) would be transformed into a direct payment to all adults. The full credits amount to a cash value of €3,300 per year, or €63.29 per week. This would eliminate the tax credit and expose all earnings to taxation.
- This PBI would not affect those fully in the income tax net or those reliant on social protection (it would be absorbed in payments) . It would be a redistributive mechanism to the low-paid, part-time and casual workers whose income is below the income tax threshold (though it could have wider benefits as we will see). In essence, this would be a refundable tax credit
- It may be necessary to establish a minimum earnings level before the PBI becomes operative.

Sample Impact: Single Person

	Average Earner (€36,000)	Low-Paid (€13,000)	Casual Worker (26 Weeks at Minimum Wage: €9,275)
Loss of Tax Credits / Increased Taxation	3,300	2,600	1,856
PBI	3,300	3,300	3,300
Net Gain	0	700	1,444

Other Beneficiaries: A New Floor

- There are many people caught between the tax and social protection system – those without a 'job'.
- These may be categorised as a dependent in the current tax system or reliant on a means-tested basis in which payments may be determined by spouses' / partners' income.
- PBI would provide recognition to these people – who may be carrying out important social work or in education. This can begin to reduce reliance on means-testing.

Example: Students

- In many BI models, young people do not receive the full BI payment to incentivise remaining in education. In PBI, payments could be made for students – who are not eligible for social protection payments because they are not available for work.
- The current maintenance grant regime is means-tested and discriminates against below-average income households. Households with total income of more than €40,000 are ineligible for full maintenance grants while those above €46,000 are ineligible for partial grants. Average household income is €56,000 with 70 percent of households below this amount.

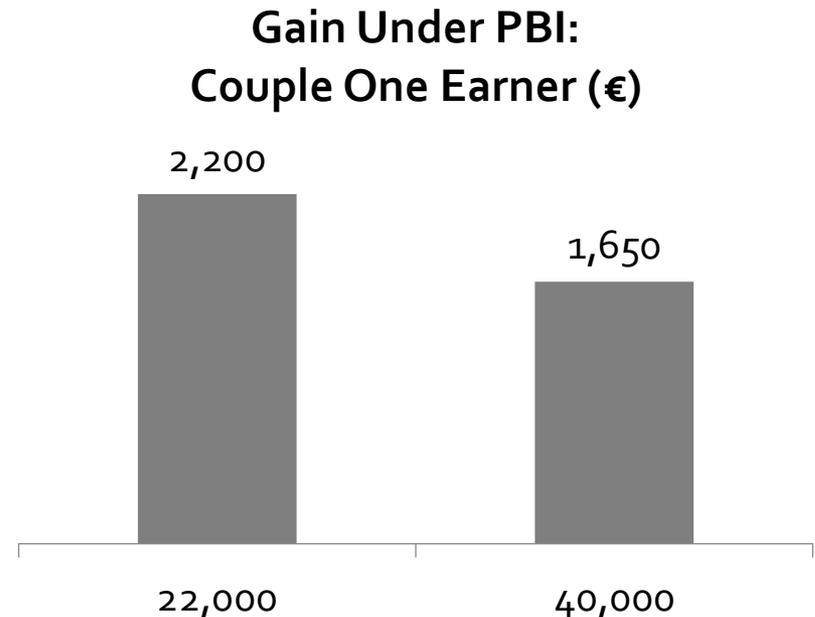
Maintenance Grants and PBI

Type	Non-adjacent rate	Adjacent rate	PBI
Special rate	5,915	2,375	3,300
Full Maintenance	3,025	1,215	3,300
Part maintenance (75%)	2,270	910	3,300
Part maintenance (50%)	1,515	605	3,300
Part maintenance (25%)	755	305	3,300

In almost all categories, the PBI is higher than the maintenance grant.

Adult Tax Dependents

- Currently, one-income married couples/civil union partners receive €4,950 in tax credits. Couples earning less than €24,750 cannot avail of all their credits. These income groups (over 40% of all 'married one-income') would benefit from a PBI.
- Further, for those fully in the tax net married or civil union dependents attract only €1,650 tax credit. Under a PBI this would be increased to €3,300.



If the tax system were fully individualised there would be no benefits to couples one earner save for those income with below the current threshold.

Single Parents and Disability

- There are two other payments that, if converted to a PBI, could bring particular benefit to single parents and those experiencing disability.
- Single parents in work receive an additional tax credit of €1,650 – on top of personal tax credits available to everyone else. Again, this can result in low-paid single parents not being able fully avail of this tax credit.
- On the other hand, single parents reliant on social protection do not get a special payment. If the Single Parents tax credit was converted to a PBI and extended to all single parents – in addition to normal tax credits/SP payments – then all single parents would benefit. This is crucial given the high level of deprivation among single parents (over 60 percent).

PBI as a Cost of Disability Payment

- Similarly, there is tax credit for those suffering from blindness: €1,650. However, similar to single parents, this payment is not available for blind people reliant on social protection.
- Introducing a PBI for this credit affords an opportunity to extend this payment to all those suffering a disability. This could move us towards a 'cost of disability' payment – an additional payment above current SP payments and tax credits.
- It should be noted that the Commission on Taxation proposed abolishing this credit and providing the cash value to all with blindness through the social protection system.

Cost of a PBI

- Difficult to accurately cost this PBI proposal without access to CSO micro-data. Relying on Revenue Commissioner data can estimate a *maximum* cost.
 - There are 860,000 tax-exempt tax cases. . Assume all these are in-work. Tax cases earning below €17,000 (factoring in couples which count as one tax case) earn on average €8,295. The average net PBI benefit would €1,641. In addition, there are 397,000 couple-on-income tax cases, each benefiting by an additional €1,650.
 - This brings the maximum cost to €2.1 billion. The actual cost would be significantly less.
- 1) A substantial number of tax-exempt are old age pensioners, though number cannot be determined with Revenue data. 50 percent of public sector pensioners earn less than €12,000. This would reduce the number s to which PBI would be applied.
 - 2) A minimum threshold would costs further. Over 200,000 tax cases earn below €5,000 .
 - 3) A number of the tax cases could be duplicates – separate cases for Schedule D and E (e.g. part-time farmer with a part-time PAYE job)
 - 4) There are approximately 30,000 in employment below the age of 18.
- When these are all factored in, the total cost should fall below €1.5 billion.

Additional Savings and Neutral Fiscal Space

- Reduced expenditure on student maintenance grants
- Reduced expenditure on Family Income Supplement
- Reduced earnings disregard and limiting means-tested programmes (e.g. part-time work on Jobseekers' Allowance, Carers' Allowance where one spouse is working)
- There would also be increased indirect tax revenue as a result of focusing on consumption-intensive income groups.
- In the current Government programme, €2 billion has been set aside for tax cuts.
- PBI would be a more efficient way of implementing the Government's commitment.
- It is likely to cost less, would be more progressive, would be less import-dense (thus benefiting GDP/current account), and promote greater equality which has real economic benefit.

Partial Basic Income: What It Is and Isn't

- A Partial Basic Income can achieve many things:
 - Rationalise some of the complex inter-actions between tax and social protection
 - Direct income support to the lowest earning and particularly disadvantaged groups
 - Create income floors where none currently exists
 - Partially limit means-testing
- A Partial Basic Income, however, is still limited:
 - It does not provide an independent income
 - It is not an anti-poverty policy (except where it is combined with other payments)
 - It does not end means-testing or adult dependency
 - It is not, in the first instance, universal (PBI would be absorbed into social protection payments)

Creating New Political Strategies

- If the introduction of BI is dependent on all-at-once strategy, it may never succeed. There are too many questions that can't or won't be answered until implemented. Then, it might be too late or expensive to correct any deficits.
- A PBI, however, is part of a transitional strategy – and a policy that does not require people to 'buy-into' BI (not fully anyway). It is intended to address current issues pragmatically and win support on the basis of common sense. If PBI is successful, then a deepening of the common sense of BI is likely to stand a better chance of winning support.

BI and Inter-Connected Progressive Policies

- It may also allow supporters to develop BI not in isolation but in connection with other progressive strategies:
- **Social wage** –deepen and extend social insurance benefits to a larger section of the population (and not necessarily those at work)
- **Reduction of the Working Week** – improve work/life balance and increase prosperity by sharing in growth and productivity gains.
- Basic Income can then become part of a broader progressive drive to create economic efficiency and social equity.

