

Universal Basic Income

An Effective Policy for Poverty Reduction?

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Executive Summary

Universal Basic Income (also known as UBI) has emerged as one of the most exciting and ambitious ideas in a generation. Understood as an unconditional cash transfer offered to anyone regardless of their income, it has been heralded as an answer to the problem of poverty and social breakdown. It offers individuals the opportunity to lead the life they want to lead, say no to degrading and low paid work, and afford the chance to invest in boosting their own productivity. In a future of precarious employment and increased automation, UBI offers economic security for all.

But is this the case... and does the rhetoric match reality?

This paper argues that UBI is a false hope. While offering low income individuals better financial support is something the CSJ endorses¹, UBI:

- Is unaffordable, putting at risk the provision of important services in healthcare and education.
- Doesn't meet the needs of low income households facing complex problems such as drug addiction, dangerous debt, and family breakdown.
- Provides a major disincentive to find work, which is the best route for many people out of poverty.
- Is no more generous to the most disadvantaged households than the provisions under Universal Credit.

In the following pages we outline the practical implementation of UBI, detail the arguments for and against it and compare its generosity to Universal Credit. In the appendix we summarise historical examples of UBI pilots that have been introduced around the world.

Assuming the primary aim of UBI is to tackle poverty, there is little or no evidence to suggest it would achieve its aim. Many of the arguments in favour of UBI do not hold up in reality, and there is little reason to think it would be a better alternative to the existing welfare state which is means tested and conditional for all claimants. Lastly, any prediction that jobs will disappear in the future as automation and technology reduce the need for humans is an overly fatalistic projection. History proves that mechanisation and digital technology have pushed employment levels to the highest in history. Deloitte predicts that for every job lost to automation, approximately 4 have taken its place². There is every reason to assume that there will be more jobs in Britain in the future than there are here today.

¹ Centre for Social Justice, *Universal Credit – Work and Pensions Select Committee Submission* (2017) [accessed via: <https://www.centreforsocialjustice.org.uk/library/universal-credit-work-pensions-select-committee-submission>]

² Deloitte, *From Brains to Brawn: The Impact of Technology on Jobs in the UK* (2015)

Introduction

Universal Basic Income (UBI) is an alternative type of welfare that seeks to support the poorest in society by offering unconditional cash to everyone, regardless of their earned income. It is designed to ensure a minimum income and economic security for all. This goes against 70 years of practice in the UK, where our welfare system has been means tested, offering cash conditional on recipients meeting certain requirements (for example, over a certain age, with income below a certain level, or registered with a mental or physical health condition).

Traditional advocates have heralded UBI as a simple and practical solution to eradicating poverty. By giving everyone a minimum income, regardless of whether they are young, old, unemployed or out of work, a government can tackle that original evil – want. More recently UBI has been heralded as the answer to wider problems of automation, wealth inequality and social mobility.

UBI has become a fashionable idea, with advocates including Facebook founder Mark Zuckerberg, Paypal creator Elon Musk, PIMCO founder Bill Gross, and Richard Branson. Former Labour Leader Ed Miliband said recently on Newsnight, “*We know technology is going to be incredibly disruptive, so therefore a welfare system built on a job for life, the welfare system [sic] we have in one form or another, doesn’t really feel fit for purpose*”³. Support for UBI has come from all corners of the political spectrum - “*The idea draws support from leftwingers who see an opportunity to redistribute and to give workers more bargaining power, and rightwingers who see an opportunity to dismantle paternalistic bureaucracies and empower ordinary people to make their own choices*”⁴. Republic President Richard Nixon fancied the idea of a UBI in the 1970s.

This report aims to evaluate UBI in terms of its effective ability to reduce poverty in the UK. The premise of the report is to seek an answer to the question of whether UBI is a valid alternative to the existing means tested welfare system. Due to the lack of any recent UBI pilot in the UK, there is little scope for a quantitative analysis using regression techniques. However, we provide a balanced analysis of the arguments in favour and against UBI using examples from experiments in other countries, offering our interpretation of whether UBI offers a practical alternative to the welfare state in helping the most disadvantaged across Britain.

In Chapter 1 we provide an overview of the different types of UBI and explain our understanding of UBI as a pure unconditional cash transfer. Chapter 2, we look at how the policy could be implemented practically. In Chapter 3 and 4 we look at the arguments for and against UBI respectively, detailing the theoretical and practical reasons why UBI may or may not work. Chapter 5 looks at the generosity of UBI compared to Universal Credit. After the conclusion we provide more background information in the Appendix on the history of UBI.

³ Ed Miliband on basic income – BBC Newsnight [accessed via:

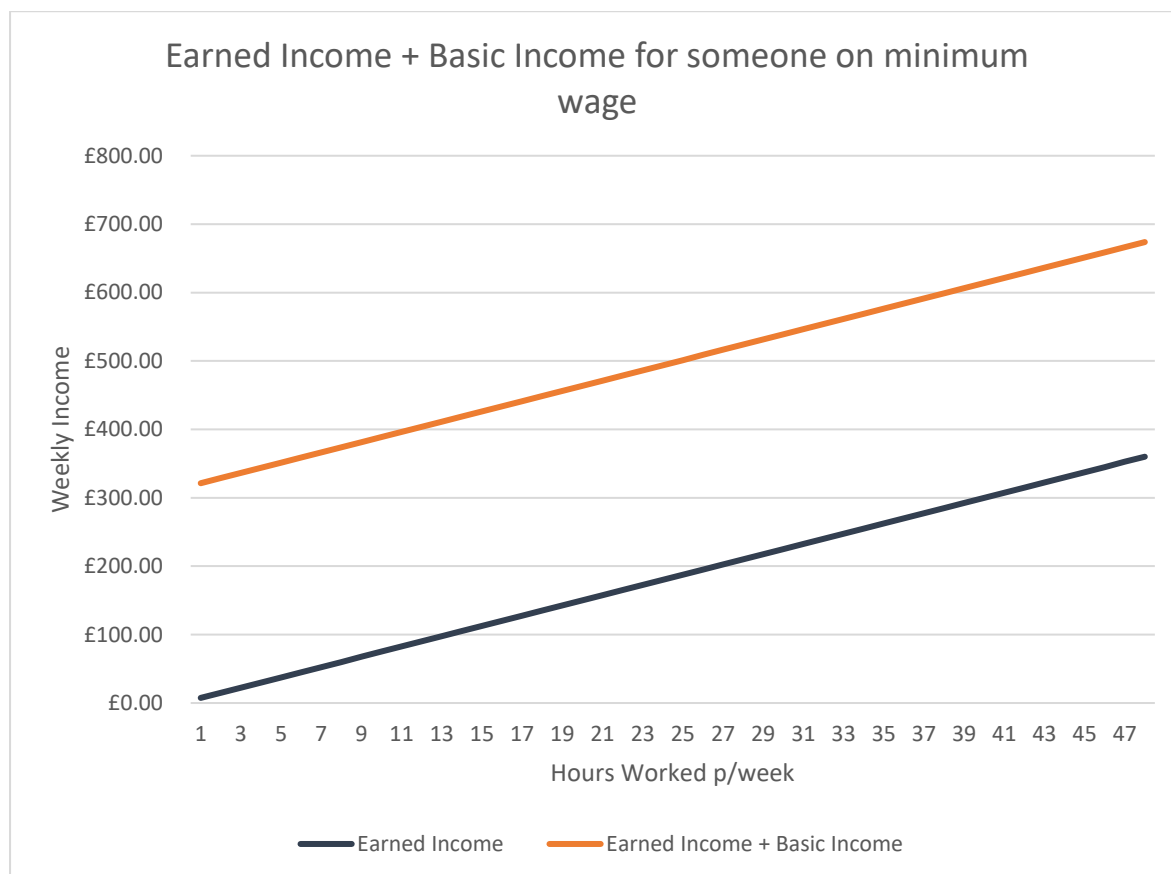
<https://www.youtube.com/watch?v=ccZ53UVhYxk>]

⁴ Ft.com, *Rutger Bregman: ‘Basic income is all about the freedom to say no’* (March 2018)

<https://www.ft.com/content/44adcf46-2197-11e8-a895-1ba1f72c2c11>

Chapter 1. What is Universal Basic Income

UBI in its purist form involves the transfer of a specific sum to all qualified recipients unconditional on their income or labour market status. Regardless of whether an individual or household has no declared earnings, an income of £10,000 or £100,000, they are entitled to the same amount of UBI. This is the most simplistic but most expensive form of UBI. UBI programmes past and present have paid out the equivalent of between £1,400 to nearly £20,000 in today's money. UBI removes any disincentive to declare income but has an effect on the incentive to find work, increase hours and increase pay (dependent on the generosity of UBI). Lastly, UBI is not tax deductible, meaning it is paid out and taxed at the applied marginal rate. The chart below plots the weekly earnings profile of our minimum wage worker under Basic Income that offers £313.80. It shows how the universal nature of Basic Income has no impact on the marginal tax rate (MTR). It also shows that no-one can expect to earn less than £320 per week.



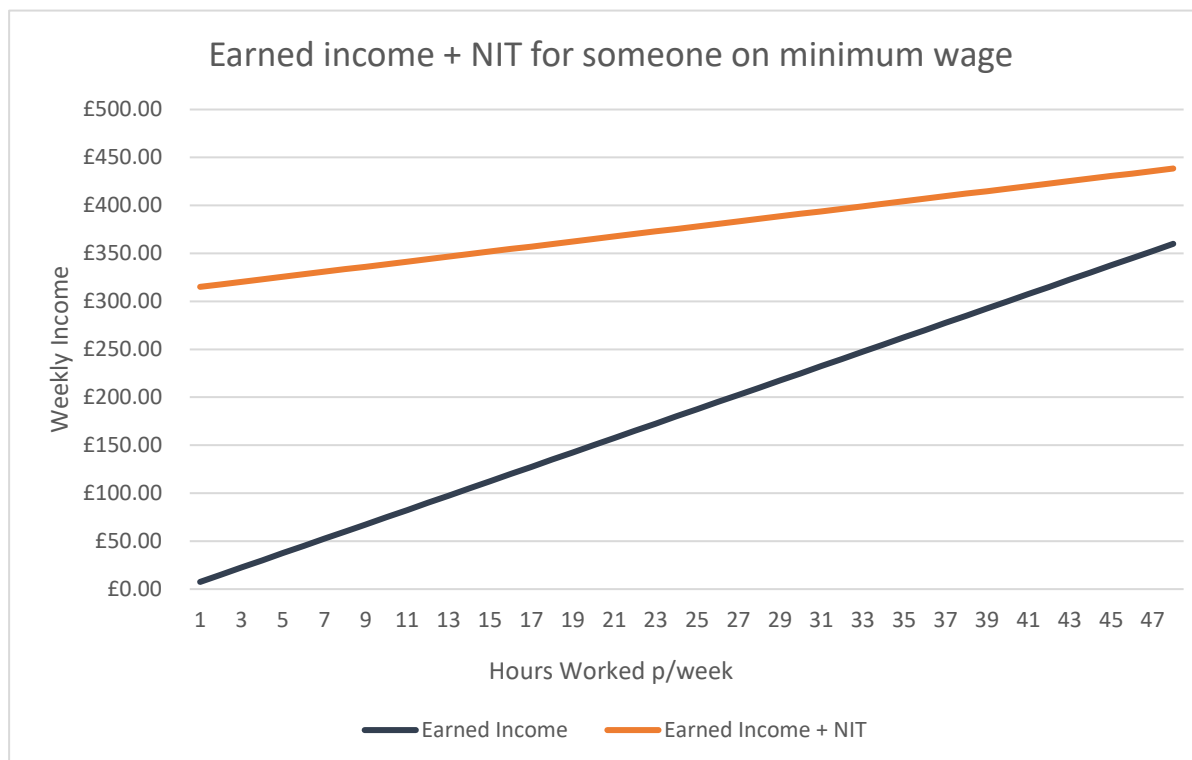
We have detailed a history of UBI in the appendix. Many examples of UBI pilots have varied and adopted different structures than the pure form of UBI above. These variations include Negative Income Tax (NIT) and Guaranteed Annual Income (GAI) (see Box 1 below for more details). However, we do not consider these pure forms of UBI. In the case of NIT, it more closely takes the form of a means tested dynamic benefit payment (which we already have in

place in the UK). When detailing the arguments in favour and against a UBI, we assume UBI to take its purist form – an unconditional cash transfer, not dependent on income, paid out to everyone.

Box 1: What is Negative Income Tax (NIT)

NIT is a structured mechanism for transferring cash to low income families. It uses an income threshold so that well-off families receive nothing and continue to pay tax on earned income above the threshold. Low income families earning below the threshold receive a percentage of the difference between what they earn and the threshold. For instance, if the threshold is £25,000 and an individual earns £14,000 the Government would transfer £7,150 (65 per cent of the gap between £25,000 and £14,000). If another individual earned £21,000, the government would transfer £2,600 (65 per cent of the gap between £25,000 and £21,000). While NIT has an inbuilt incentive to increase hours, the incentives are weakened by the existence of high effective marginal tax rates (MTR).

The below graph shows an individual workers’ weekly earning profile if they had NIT support. Assuming they work at an hourly rate, earning minimum wage (£7.50 per hour), and NIT offered 65 per cent of the gap between earnings and an income threshold of £480 per week. NIT would continue to top their wage even they worked 48 hours a week, and no one would have an income of less than £315 per week.

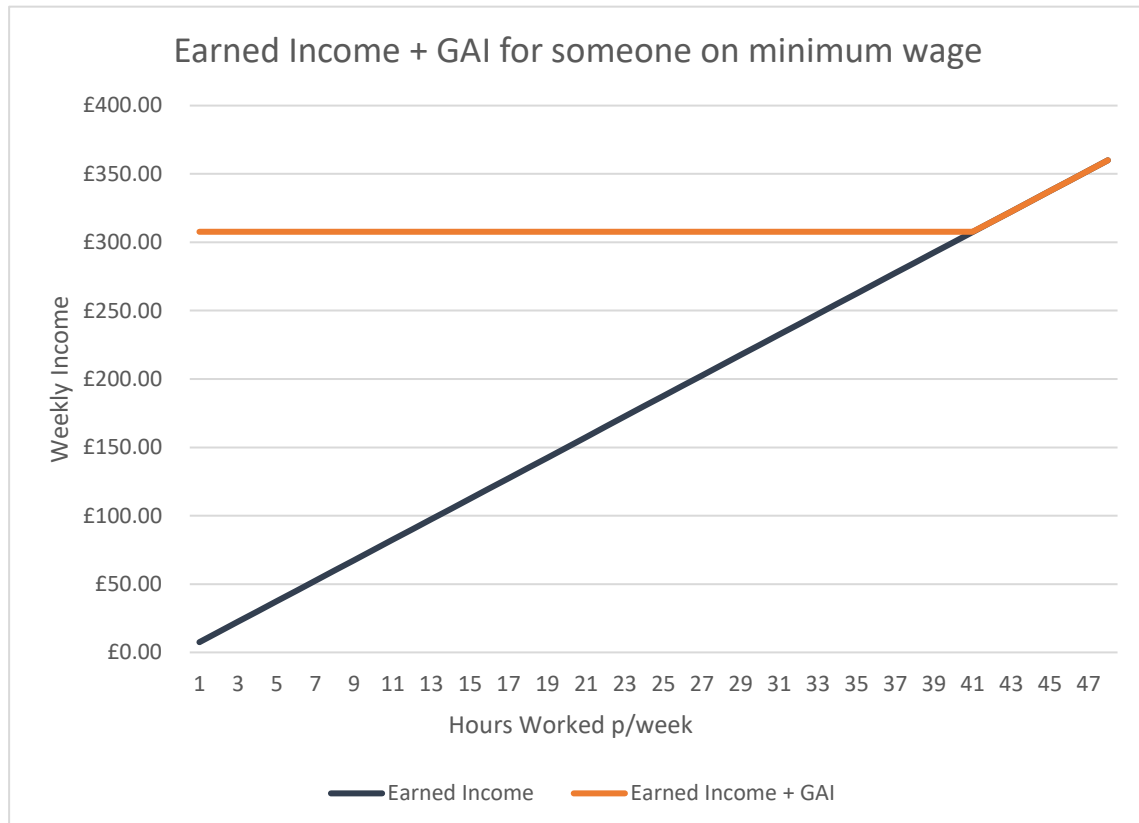


What is Guaranteed Annual Income (GAI)

A GAI ensures individuals have a basic level of income regardless of whether they work or what they earn. The GAI could be set at £20,000 meaning, someone earning £16,000 would be entitled to £4,000 from the Government (taking their income to £20,000) while an unemployed individual

with no registered income would be entitled to £20,000 from the Government. GAI produces some strong disincentives to declare earnings, and work in low paid jobs that pay less than £20,000 per annum.

Below we show the weekly earnings profile of a minimum wage worker under GAI. Assuming they are paid weekly at £7.50 an hour, and the GAI threshold has been set at £307 per week. It shows how no worker can expect to take home less than £307 per week, but there is an MTR of 100 per cent for anyone working fewer than 42 hours per week. There is therefore no incentive to increase your hours in you work less than 41 hours per week at minimum wage.



Chapter 2. UBI Costings

The UK current social protection and personal social services budget is approximately £283 billion (2018/19), approximately a third of UK public spending⁵. This includes state pension provision (£96.5 billion), incapacity benefits (£15.5 billion), unemployment benefits (£2.9 billion), housing benefits (£23.6 billion), income support and child benefits (£11.5 billion) and finally social services (£35 billion)⁶. In an era of relative public finance constraint, it is hard to envisage a significant increase in the budget available for social protection.

Below, we have detailed how much UBI as a programme would cost the UK Government under different scenarios, including increasing/decreasing generosity of payments and restricting eligibility for UBI. Restricting eligibility for UBI can be done by both restricting people under the age of 16 and anyone over the state pensions age from being able to claim UBI. It can also be done by awarding UBI to a household, and not to individuals (this effectively reduces the number of claimants). For our calculations we have assumed three scenarios; UBI is available to all working age adults (between the ages of 16 – 64 years old), UBI is available to all adults over the age of 16, and lastly UBI is available to all households across the UK.

Pay-out generosity	Working Age Adults ⁷	All Adults over 16 years old ⁸	Households ⁹
£2,000	£82.0 billion	£104.0 billion	£52.4 billion
£5,000	£205.0 billion	£260.0 billion	£131.1 billion
£6,240	£ 255.8 billion	£324.5 billion	£163.6 billion
£10,000	£410.0 billion	£520.0 billion	£262.2 billion
£16,320	£669.1 billion	£848.6 billion	£427.9 billion
£20,000	£820.0 billion	£ 1.0 trillion	£524.4 billion

Assuming a UBI programme paid out to working age individuals between the ages of 16 and 64 years old and the payment was equal to the income poverty line (60 per cent of the median wage¹⁰), £16,320 (also what a single unemployed parent with two dependent children and council housed would receive through universal credit), the total cost of the programme would be approximately £669.1 billion. This is roughly 83 per cent of UK public spending, or just more than a third of UK GDP.

⁵ CSJ calculations, ONS, HM Treasury

⁶ <http://obr.uk/efo/economic-fiscal-outlook-march-2017/>

⁷ Note: Assume 41 million working age adults in the UK

⁸ Note: Assume 52 million people over the age of 16 in the UK

⁹ Note: Assume 26.2 million households across the UK

¹⁰ Note: £27,200 [accessed via:

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/nowcastinghouseholdincomeintheuk/financialyearending2017>]

Chapter 3. Arguments For UBI

Poverty reduction

Advocates of UBI celebrate its potential for tackling poverty. This is understood as its primary purpose and is rooted in the clear theory that by giving someone money, they won't suffer from the five giant evils that Beveridge highlighted – want, disease, ignorance, idleness and squalor. There are multiple theories behind the idea that UBI can help eradicate poverty.

I. Poverty is 'a lack of income problem'

By introducing £12,000 in to the account of someone earning minimum wage for 37 hours a week (£14,430 per annum), an individual would go from the bottom 10 per cent of earners to the median average in the UK¹¹. This effect is then compounded by the non-financial impact of having a higher disposable income. Higher incomes are associated with better physical and mental health outcomes, a lower likelihood of committing a crime and lastly better outcomes for children at school. These are all intuitive, we all recognise that having a higher income is associated with better and healthier life outcomes. But the last point highlights the intergenerational aspect of poverty, and how a large influx of financial resource can stop a passing of poverty from one generation to the next. Gordon Dahl and Lance Lochner (2012) found that increasing family income (through welfare) in the US by \$1,000 improved child maths and english test scores by 6 percent of a standard deviation in the short run¹². The Joseph Rowntree Foundation studied 34 research papers analysing the effect of parental income on child outcomes and found a strong relationship between higher parental income and reduced anxiety and stress levels for children¹³. It is easy to conclude that any form of cash transfer would help reduce poverty and specifically the threat of intergenerational poverty.

II. Cash benefits are better than 'In-Kind' benefits

Advocates for UBI argue that it is a more effective alternative to the 'In-Kind' benefits that exist in some western economies. The US Federal Government operate the Supplemental Nutrition Assistance Program (SNAP) which offers low and no income families food stamps, that can be used across private food retail outlets. Since 1939 it has expanded to offer 29 million people across the US, some form of assistance in accessing basic nutrition. Many argue that providing benefits in-kind is economically harmful, because it distorts an individual's consumption curve. For instance, if someone is in poverty and facing eviction

¹¹ ONS, *Household disposable income and inequality in the UK: financial year ending 2017* (10 January 2018) [accessed via:

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2017>]

¹² Dahl, G and Lochner, L., *The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit* (American Economic Review, 2012)

¹³ Cooper, K. and Stewart, K., *Does money affect children's outcomes?* (2013) [accessed via: <https://www.jrf.org.uk/report/does-money-affect-children%E2%80%99s-outcomes>]

from their home, a food stamp is of no use or utility in that situation. Cash, in that instance, would be better spent on housing, not food. More practically it is argued that providing any recipient with benefits in-kind is intrusive and authoritarian, suggesting an individual is unable to make rational decisions that are in his or her own best interest. For this reason, UBI offers a recipient the support, independence and autonomy that will help them rise out of poverty.

III. Financial and social inclusion

UBI can help increase financial and social inclusion. The problem of financial and social exclusion is most prevalent in the third world but it's also a reality in developed western economies. Financial and social marginalisation occurs when an individual is isolated from accessing some of the modern services that are essential for a dignified and autonomous life – national insurance number, a bank account, email address, mobile phone number, and the requisite skills for using these modern appliances. Introducing a universal cash transfer system forces all individuals who are working age or older to have at least a registered National Insurance number and a regulated bank account. By ensuring this, each individual would be forced to become more financially and technically literate, reducing the serious problem of financial and social marginalisation. An extension of this theory is found in the case of Aadhaar programme in India, which is using biometric identification technology to administer government subsidies and welfare as well as reduce fraud¹⁴.

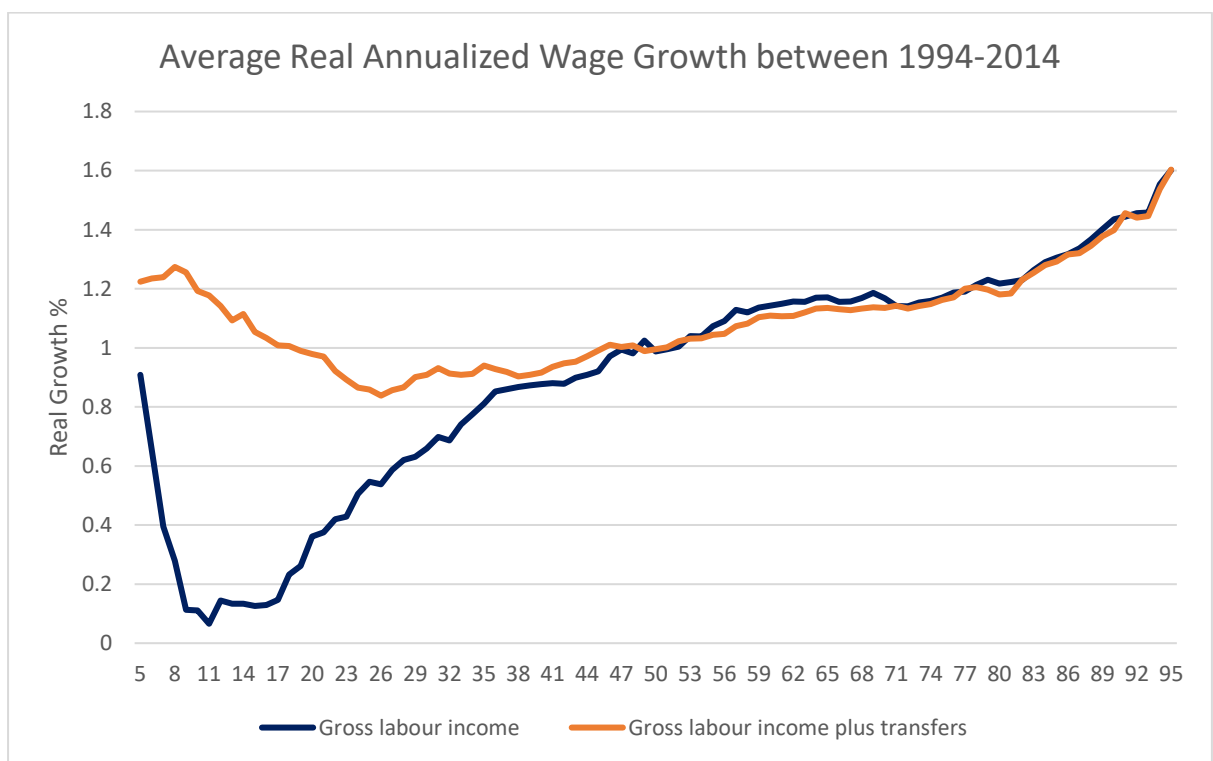
IV. In-work poverty and technical unemployment

Advocates for UBI argue that modern work no longer provides economic security that it once did. UK wage growth (before tax and benefits) for the bottom quartile has averaged at less than half a percent for the past two decades (see below). Whereas higher income households have seen an average increase of 1 – 2 per cent. Changes to the minimum income laws have helped push wages up at the very bottom of the income distribution, but broadly speaking, low skilled workers in low paid work have had to rely on welfare to support their stagnating incomes. There is also a growing consensus among advocates of UBI that technology advancement will continue to make manual labour redundant as it automates routine roles across the economy. Carl Frey and Michael Osborne from the University of Oxford used an algorithm to predict the computability of different jobs within an economy¹⁵. They found nearly half of all American jobs could be automated eventually. These jobs included telemarketers, insurance underwriters, tax accountants, and certain machine operators.

¹⁴ Innovationiseverywhere.com, *This is Aadhaar: India's 750 million biometric and online identity database and its future as an ecosystem of innovation* (2015) [accessed via: <https://www.innovationiseverywhere.com/this-is-aadhaar-indias-750-million-biometric-and-online-identity-database-and-its-future-as-an-ecosystem-of-innovation/>]

¹⁵ Frey, C and Osborne, M., *The Future of Employment: How Susceptible are Jobs to Computerisation* (Oxford University, 2013)

Social Policy commentator Richard Reeves said in a Brookings Institute article that “The labour market continues to work pretty well as an economic institution, matching labour to capital, for production. But it is no longer working so well as a social institution for distribution. Structural changes in the economy, in particular skills-biased technological change, mean that the wages of less-productive workers are dropping. At the same time, the share of national income going to labour rather than capital is dropping”¹⁶. UBI would therefore plug the gap between increased hours of work and wages, allowing for employees to work an honest day’s work for a decent days pay. The Royal Society of Arts believe UBI could increase an individual’s economic security, “Its purpose is to enable people to better adapt to changes in their lives... through the creation of a more solid foothold on which to make changes, provide mutual support and care, and try out creative ideas... Basic Income provides people with a basis for economic security from which to find good work, not no work”¹⁷.



Source - IFS

Productivity Growth

Providing citizens with a UBI would allow each individual to invest more in their own economic capacity. This is most clearly understood in terms of accessing graduate and non-graduate education opportunities that increase the opportunity for work and wage progression. The Royal Society of Arts state in their 2018 report on UBI, “A low skilled worker might reduce their working hours to attain skills enabling career progression... [or] provide the

¹⁶ Reeves, R. *Time to take Basic Income seriously* (January 2016) [accessed via:

<https://www.brookings.edu/opinions/time-to-take-basic-income-seriously/>]

¹⁷ Painter, A., Cooke, J. and Thorold, J., *Pathways to Universal Basic Income* (RSA, 2018)

*impetus to turn an entrepreneurial idea into a reality*¹⁸. Assuming the future will be one with a much greater reliance on technology and therefore much greater need for technical skills that complement technology, UBI would allow all people to improve their skill capacity and raise their productivity.

Inequality and social division

UBI could help reduce economic inequality. Assuming UBI is distributed pre-tax and higher incomes are taxed on their UBI, the gap between poor and rich households would theoretically shrink. Scott Santens predicts that by introducing a \$12,000 UBI to all US adults and taxing higher incomes at a 40 per cent flat rate, the Gini coefficient would fall by 0.14¹⁹. This model assumes a significant burden of tax on both wealthy and middle-income households, which seems politically unfeasible in the current UK political climate, and no change in the labour capital share that has disproportionately benefited the wealthy.

However, increasing the incomes of individuals at the bottom of the income scale would affect the perceived level of inequality in society, and in turn have a positive effect on the level of social division that exists in modern western societies. In recent years, UK inequality has fallen but the rise in political populism suggests people feel the current tax and welfare system is not fair. The Institute for Fiscal Studies released research in November 2017 showing how tiny information asymmetries can change an individual's opinion on the state of the world. During an experiment in which three groups were asked whether they thought the tax system was fair, one treatment group was given the true statistic that *'the top 10% of income taxpayers pay 60% of all income tax'* (indicating the rich paid a lot) while the other was given the also true statistic that *'someone earning £45,000 faces the same income tax on an extra £1 of earnings as someone earning £145,000'* (indicating the rich didn't pay enough). Unsurprisingly, opinions on whether the tax system was fair varied between these groups, with group 1 40 percentage points less likely to believe the tax system was unfairly skewed for the benefit of the rich²⁰. UBI would, in theory, help this perceived sense of inequity.

Efficient Use of Natural Resources

UBI could be a more appropriate means of redistributing wealth generated from natural resources. Advocates believe that this would be both the most efficient use of money, but also (in the third world) a clear moral obligation.

Both Nigeria and Equatorial Guinea have set up sovereign wealth funds as a means of reinvesting oil revenues in to the economy. Both countries redirect a small percentage of oil returns in to their respective funds (Equatorial Guinea redirects 0.5 per cent on oil revenues into its Fund for Future Generations). Middle Eastern economies have been more successful at using natural resource wealth for the benefit of its citizens. Saudi Arabia and Kuwait both

¹⁸ Painter, A., Cooke, J. and Thorold, J., *Pathways to Universal Basic Income* (RSA, 2018)

¹⁹ Scottsantens.com, *Does Guaranteeing a Basic Income Reduce Income Inequality?* (December 2014) [accessed via: <http://www.scottsantens.com/does-basic-income-reduce-income-inequality-gini>]

²⁰ Miller, H. *Is our tax system fair? It depends...* (IFS, 2017) [accessed via: <https://www.ifs.org.uk/publications/10038>]

redirect oil revenues in to the public sector, boosting public sector employment, and a large welfare system. However, Brookings Institute recently called this means of redistributing wealth, inefficient²¹.

²¹ Devarajan, S. *Three reasons for universal basic income* (Brookings Institute, 2017) [accessed via: <https://www.brookings.edu/blog/future-development/2017/02/15/three-reasons-for-universal-basic-income/>]

Chapter 4. Arguments Against UBI

Affordability

The most practical argument against the implementation of a UBI is its affordability. Estimating the cost of UBI programmes is highly dependent on the parameters; the generosity of the transfer, the age condition of recipients (whether pensioners or 16-18-year olds would be entitled), or if UBI is administered at either a household or individual level. Chapter 2 has more detail on the variability of costs across different forms of UBI and with different parameters.

The primary problem facing policy makers who want to test a UBI programme is, like all welfare programmes, the linear trade-off between affordability and effectiveness. UBI becomes incrementally less affordable, as it becomes increasingly more effective in achieving its aim of eradicating poverty. Smaller programmes that have been put in place include the Alaska Permanent Fund which offers recipients just \$2,000 annually, whereas the Eastern Band of Cherokee Indians offer recipients \$12,000 (and a \$100,000 child trust fund). Assuming these programmes were extended (using pound sterling denomination) to 41 million working age adults across the UK, the cost of such a programme could go from £82 billion (just above the cost of current unemployment, housing, and income support) to more than £492 billion (more than half of total UK public spending)²².

As we said earlier, a reasonably generous UBI programme offering participants an entitlement equal to the income poverty line would cost £669.1 billion. Taking out unemployment benefits, housing benefits, income support (including personal tax credits), child benefit and finally social services, will save less than £100 billion. Assuming UBI would help reduce the cost of social breakdown (estimated at £102 billion annually²³) – savings would still equate to less than a third of the total cost of UBI. Increased tax receipts from both higher and additional rate payers would return approximately £30 billion to government²⁴. Therefore, to afford a comprehensive UBI programme the UK Government would require cutting entire budgets in education and healthcare (see below), as well as cutting pension entitlements as well as significantly increase taxation for higher earners.

Reducing the generosity to £6,240 (equivalent to the annual earnings for someone working 16 hours a week at minimum wage) and changing the parameters to households (reducing recipients from 41 million individuals to 26 million households) would unsurprisingly reduce the cost of UBI significantly to £163.6 billion.

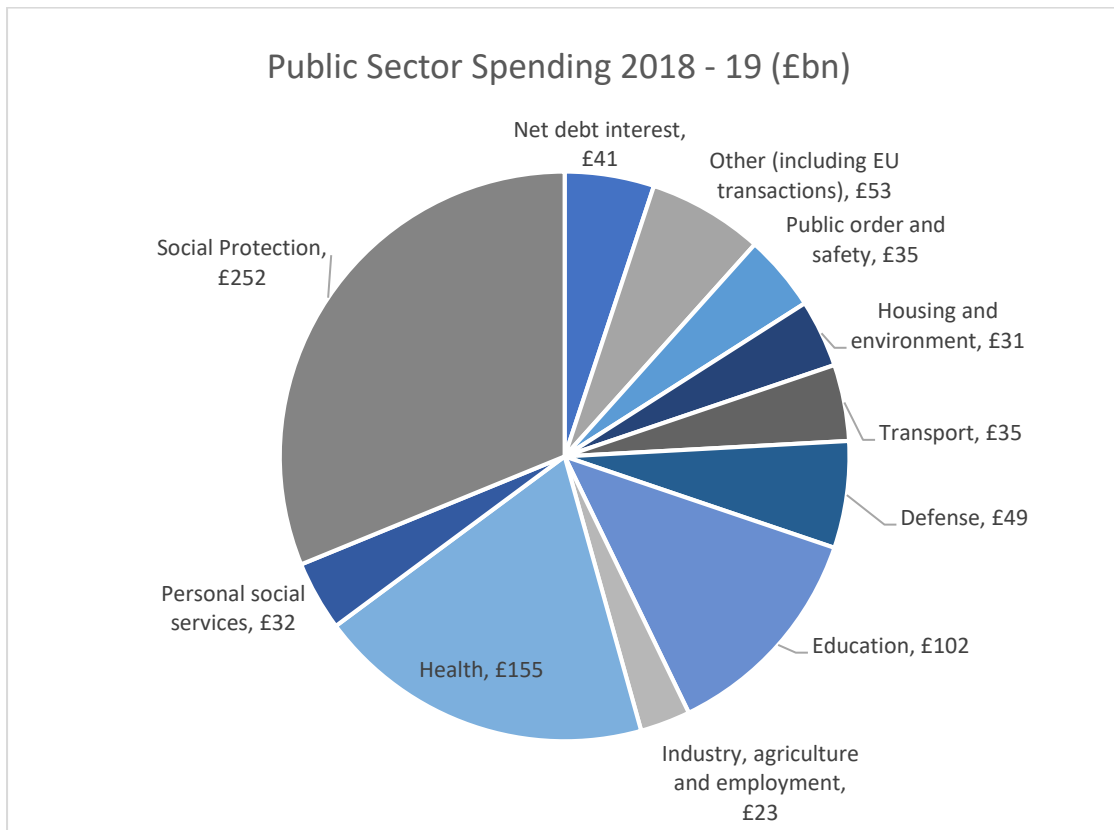
However, at just less than £7,000 UBI would be much less generous to single parent families with children on Universal Credit, and less generous to single unemployed claimants of both legacy benefits and Universal Credit. At just over £163 billion, more than half the welfare budget, the question would be – how effective would UBI be at actually eradicating poverty? And if the government did proceed with a less generous UBI settlement, would they really be

²² HM Treasury, *Autumn Budget 2017 Red Book* (2017)

²³ Centre for Social Justice, *Breakthrough Britain 2015: An Overview* (2014)

²⁴ CSJ calculations

able to cut some of the most important social protection programmes including education and healthcare.



Effectiveness – Does UBI make a difference for people in poverty?

I. Generosity

If the UK Government were to rest upon the idea of replacing existing social protections (pensions, housing benefit, unemployment benefit, income support and child benefit) with a single affordable UBI of £6,240, it is highly likely that many of the most disadvantaged households across the UK would be worse off.

The cost of living for someone in London and other major cities is far higher than the generosity of such a UBI programme. Average council rents can be between £400 – 520 per month, a food and drinks budget are roughly £250 per month, utilities, household insurance and council tax can add an additional £160. It is therefore not hard to imagine a very conservative monthly living allowance of £870 per month, or £10,440 annually. The Joseph Rowntree Foundation calculate a Minimum Income Standard (MIS), understood as a minimum amount of financial resource needed to lead a life of relative comfort. The 2017 MIS for a single working age individual was £296 per week, or approximately £1,200 per month. A UBI of £6,240 would be insufficient help for anyone without an additional income.

Also, under the existing system of Universal Credit, an unemployed single parent with two children can expect £1,395 in monthly instalments²⁵ more than a generous or cheaper affordable UBI programme (see Chapter 5 for more detail). A single recipient with no dependents would receive through Universal Credit £679 per month, still more than under an affordable UBI programme.

Only once an individual is in work does UBI become more effective. Someone working full time on minimum wage could expect to earn approximately £14,430 annually. Introducing a UBI worth £6,240 would boost take home pay to £21,020, £17,438 after tax, equivalent to £1,453 monthly. However, a single parent working for minimum wage full time with two children would take home £829 per month in Universal Credit and Child Benefit²⁶, on top of pre-tax earnings of approximately £1,091.

In summary, Universal Credit is still more generous to the most at risk households than UBI. And UBI doesn't go far enough in covering some of life's most basic necessities for the most disadvantaged across the UK.

II. Poverty is not just an income problem

The Centre for Social Justice has a long history of recognising that while the symptoms of poverty include a lack of income and wealth, the roots of poverty are non-financial; a lack of education, unemployment, family breakdown, drug dependency and debt problems.

The September 2014 publication *Breakthrough Britain 2015: An Overview* summarised the thinking behind this “*Despite the longest period of continuous economic growth since the start of the Industrial Revolution – more than 60 quarters – and unparalleled levels of government spending, a proportion of British society remained cut off from the mainstream. Many of the poorest had become poorer*”²⁷.

The argument made by the CSJ, and others, is that a loss of income may cause a financial shock pushing someone to require welfare support for a short period, but endemic poverty occurs when non-financial disruptions destabilise the very foundations of an individual's life. The five non-financial roots of poverty – education failure, unemployment and welfare dependency, family breakdown, drug addiction and debt problems – are connected and often co-occur in a chaotic environment. Where one affliction exists, you often find others. And while money can help solve short term problems such as providing emergency accommodation, food and clothing, state subsidies are less successful at helping to solve the deeper roots of poverty that afflict people up and down the country. Fundamentally, regardless of how generous state support is, unless a drug addict facing homelessness and without a good education gets access to bespoke support that helps them get off drugs, find a home and learn to read, they are unlikely to emerge out of their story state of destitution.

²⁵ Policy in Practice, Universal Credit Calculator [accessed via: <https://www.betteroffcalculator.co.uk>]

²⁶ Ibid, Policy in Practice

²⁷ Centre for Social Justice, Breakthrough Britain 2015: Overview (September 2015)

Isabel Sawhill from Brookings Institute sums this up succinctly “*many of the poor and jobless are lacking more than just cash. They may be addicted to drugs or alcohol, suffer from mental health issues, have criminal records, or have difficulty functioning in a complex society. Money may be needed but money by itself does not cure such ills... In the end, the biggest problem with a universal basic income may not be its costs or its distributive implications, but the flawed assumption that money cures all ills*”²⁸.

Inequity – Is giving rich households UBI fair or sensible?

The affordability problem with UBI is connected to the principle of universality and the fact wealthier households are entitled to it. Under variations of UBI (NIT and GAI), this is not the case. However, UBI is defined by the fact it is unconditional, paid out regardless of the recipient’s income.

Advocates argue that richer families would pay back UBI entitlements in tax. However, paying UBI to above average income households (earning above £27,000) would, after 45 per cent was reclaimed in tax, still amount to ‘welfare for the rich’ of £43 billion²⁹.

The extent to which this is practical and good use of taxpayer’s resources is highly questionable, but it also feeds in to the problem of a perceived inequity that exists within the tax and welfare system. When unemployed households are receiving just £6,240 in UBI to cover all the basic necessities, it will seem deeply unfair to many that a household with an annual income of £80,000 is also entitled to a UBI of £3,432 (post-tax).

The argument in favour of UBI becomes increasingly complex at this point with advocates claiming that a super tax of 100 per cent can be applied to UBI payments for rich households, and the savings reinvested in providing public services such as housing and income support. Services that UBI had initially intended to replace. It is also at the time, that advocates argue against scrapping existing social protection schemes such as unemployment benefits and housing benefit – both arguments that make UBI increasingly impractical.

Robert Greenstein castigates this notion that UBI should redirect savings from cutting services to a UBI that would be paid out to higher income individuals, “*If you take the dollars targeted on people in the bottom fifth or two-fifths of the population and convert them to universal payments to people all the way up the income scale, you’re redistributing income upward. That would increase poverty and inequality rather than reduce them*”³⁰. There is little doubt therefore that (an affordable) UBI raises more problems in terms of equitable distribution of resources across society than it would hope to solve.

Disincentives to work

²⁸ Sawhill, I. *Money for nothing: Why a universal basic income is a step too far* (Brookings Institute, 2016)[accessed via: <https://www.brookings.edu/blog/social-mobility-memos/2016/06/15/money-for-nothing-why-a-universal-basic-income-is-a-step-too-far/>]

²⁹ CSJ Calculation

³⁰ Greenstein, R. *Commentary: Universal Basic Income May Sound Attractive But, If It Occurred, Would Likelier Increase Poverty Than Reduce It* (Centre on Budget and Policy Priorities, 2017)

There is evidence to suggest that unconditional cash transfers disincentivise people to work and cause a reduction in the supply of labour within an economy. The empirical support for this argument is found in the Price and Song (2016) paper that analysed the Seattle and Denver income maintenance experiments in the 1970s. They found recipients were more likely to be unemployed, earn less when employed, more likely to apply for disability welfare and retire at a younger age. The authors also posited that the effect of temporarily lower hours or even unemployment had long term effects on both the ability to get back in to the jobs market and take on the same higher number of hours, “*Where that literature shows that involuntary job displacement can cause lower earnings far into the future, we find that the voluntarily decreased hours experienced by SIME/DIME participants are also associated with lower earnings later in life (although those lower earnings may be mediated by factors other than the decreased work, such as changed preferences)*”³¹. Philip Robins (1985) found that UBI had the largest disincentive effect on ‘at-risk’ demographics such as single mothers, the youth, and ethnic minorities.

Other critics of UBI point to the introduction of means tested welfare and the effect that has had on employment rates. The UK has enjoyed an employment miracle since the 2008/09 recession. This has largely been understood as a function of Britain’s flexible labour market, but also increased conditionality within the welfare system that strongly encourages and rewards claimants for looking and finding work. It follows therefore, that a relaxing of these conditions would result in fewer people looking and finding work.

Of course, the extent to which UBI disincentives work is dependent on its generosity. The Alaska Permanent Fund pays out \$2,000 annually, and analysis has shown that it has little to no effect on the supply of labour. The Seattle and Denver experiments were more generous paying out the equivalent of the poverty level (equivalent to £16,320 in the UK today). Without piloting a new UBI programme, with a specific level of generosity, it is hard to estimate the near-term effects on labour supply. However, our view and the general consensus is that all forms of unconditional cash transfers reduce the supply of labour among the most ‘at risk’ groups in the long term. And reducing the supply of labour, increasing the number of people out of work, would increase the number of people in poverty.

Will the future really be jobless?

Advocates of UBI argue that technology and automation will make millions of jobs redundant and leading to an era of mass unemployment. But in reality – will this happen? While Frey and Osborne estimate that up to half of jobs are at risk of automation, this is a gross figure and does not take in to account the number of new jobs created from advances in technology. Researchers at Deloitte³² estimate that technology has created 3.5 million higher skilled jobs in the last 15 years and Enrico Moretti³³ believes that every high-value skilled jobs creates another 4 lower skilled jobs in the supply chain. Therefore assuming 10.43 million jobs are at risk (approximately a third) – based on estimations made by PWC³⁴ - we would expect the

³¹ Price, D. and Song, J. *The Long-Term Effects of Cash Assistance* (NBER, 2016)

³² Deloitte, *From Brains to Brawn: The Impact of Technology on Jobs in the UK* (2015)

³³ Enrico Moretti, *The New Geography of Jobs* (New York, 2013)

³⁴ PWC, *Will Robots Steal Our Jobs? The potential impact of automation on the UK and other major economies* (2017)

creation of more than 30 million new jobs in the UK economy. In such a case, it would seem illogical to introduce a UBI to support people at risk of unemployment.

Chapter 5. Better off on Universal Credit

Finally, there is little evidence to suggest UBI would be a better deal for welfare claimants that need the most support, notably single parents. Below is a table detailing both the take-home pay and state subsidy (in brackets) that different claimants would be entitled to under three scenarios: a) Universal Credit, b) Generous UBI and c) Affordable UBI.

A number of assumptions were made for all claimants. It was assumed that employed claimants worked full time at minimum wage (£7.50 p/hour) for 37 hours a week, children were under the age of 16, and rent (relevant to the housing component of Universal Credit) was £420 per month. The parameters applied to Generous UBI included a payment of £16,320 paid out to individuals (not households) that was not tax deductible. Affordable UBI includes a single payment of £6,240 paid out to households (not individuals) and was again tax deductible.

Annual take-home pay (state subsidy in brackets) under Universal Credit and UBI³⁵:

Claimant Type	Universal Credit	Generous UBI (£16,320)	Affordable UBI (£6,240)
Single unemployed	£8,148 (£8,148)	£16,320 (£16,320)	£6,240 (£6,240)
Single employed on minimum wage	£13,092 (£0)	£24,293 (£16,320)	£17,438 (£6,240)
Single parent unemployed/2 children	£16,746 (£16,746)	£16,320 (£16,320)	£6,240 (£6,240)
Single parent employed/2 children	£23,043 (£9,951)	£24,293 (£16,320)	£17,438 (£6,240)
Two couple unemployed/2 Children	£15,881 (£15,881)	£25,578 (£32,640)	£6,240 (£6,240)
Two could, one employed/2 children	£22,177 (£9,085)	£35,320 (£32,640)	£17,438 (£6,240)

The table shows that Universal Credit is more generous than an affordable UBI in five of the six scenarios. Only a single individual employed on minimum wage is better off under an affordable UBI programme. This raises the fact that UBI is generally less generous to the most at risk individuals, single parents. Universal Credit is more generous to an unemployed single parent with two children than a generous UBI programme and is only marginally less generous to a single parent in work than UBI.

³⁵ Note: All estimations have been made using CSJ calculations, Money Saving Expert tax calculator and Policy in Practice UC Calculator. [accessed via: <https://www.moneysavingexpert.com/tax-calculator/> and <https://www.betteroffcalculator.co.uk>]

Conclusion

The purpose of this paper was to answer the simple question of whether UBI would be an effective policy at reducing poverty. It is our analysis that UBI would not be an effective means of tackling poverty. It is unaffordable, ill-equipped to deal with people facing complex problems, could provide a massive disincentive for people to find work and would be no more generous than the existing Universal Credit programme.

A generous UBI programme is so expensive it would require a significant reduction in the provision of other social services and protections including healthcare, education, pensions and housing. And we remain sceptical of whether a UBI payment would offer better support than Universal Credit. A generous UBI pay-out of £16,320 annually is less than an unemployed single parent with two children would be entitled to through Universal Credit (see Chapter 5).

The benefit that the existing Universal Credit programme offers, is its ability to provide additional support to people based on needs. Claimants who are single parents, carers, socially housed and in need of bespoke one-to-one mentoring support are able to better access this through Universal Credit. UBI does not have this inbuilt ability and would therefore be less adept at meeting the needs of individuals and families with complex problems such as drug dependency, family breakdown, or trouble finding work.

The other arguments in favour of UBI are limited. Giving people money to access education is admirable, but this can be more efficiently done through a targeted programme and without giving a generous UBI cheque to higher income households. Introducing UBI would only reduce inequality if it was paired with a large increase in higher income tax rates which would be politically unlikely and economically undesirable. Finally, examples of setting up a Sovereign Wealth Fund using natural resources are limited to countries where corruption is rife and the social impact is negligible. It is also worth noting that the UK has a very small quantity of economically valuable natural resources left.

Of course, we have seen some evidence to suggest that UBI can work under certain conditions. The example of the Eastern Band of Cherokee Indians proves that perhaps community led programmes for redistributing the returns to community assets would also work. This is attractive for many reasons, improved sense of community ownership, reduced state intervention and increased social entrepreneurship. But a state funded UBI would achieve none of these things.

In conclusion, the evidence suggests UBI would be detrimental to the fight for tackling poverty in the UK. Even if it was generous enough, it would risk bankrupting the UK Government and would fail to tackle the complex problems some of Britain's most disadvantaged families face.

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Appendix I: History of Universal Basic Income

For more than 70 years, the British welfare state has been structured much like an insurance system. Individuals pay tax on their income, purchased goods and to their local council (according to the value of their owned or rented accommodation). In return, the Government agrees to provide an income for people who meet certain criteria; unemployed, retired, unable to meet housing costs, with children or facing a mental or physical health condition. This design has come to be understood as social security.

The modern form of social security was formally understood to have originated with Sir William Beveridge in his 1942 report entitled *Report on Social Insurance and Allied Services*. He imagined a comprehensive system where every individual would pay a weekly contribution to the Exchequer and in return they could expect coverage 'from cradle to grave' if he or she were to ever fall victim to one or more of the five giant evils – want, disease, ignorance, squalor and idleness. The report's material requests included the unemployment benefit, a pension for this in old age, support for people injured at work, a family allowance, the creation of the NHS, and the appointment of a government minister to oversee all of this (who would ultimately become the Secretary of State for Work and Pensions). The report was the birth of the modern welfare state.

For over 70 years the British welfare state has survived Governments from across the political spectrum, the demands of British overseas conflict, and the pressures of major economic disruption. It has become the foundation of the compassionate society we all appreciate.

While Beveridge's aim was to provide a minimum standard of living for all, the welfare state has become the Government's primary tool for tackling material destitution and poverty. It's success at helping to reduce poverty remains deeply contested with both sides of the debate arguing that it has failed to make a difference because either it does not go far enough or it's too generous to be effective.

Tracing the history of social security and understanding the roots of unconditional cash transfers can take you as far back as Thomas Paine's proposed citizens dividend in 1797³⁶.

However, for this paper we have chosen a number of major policy events in the late 60s and 70s as the beginning of the modern UBI story. Between 1968 and 1971, the US Federal Government sponsored a number of Negative Income Tax (see below) experiments across six US States; New Jersey, Iowa, North Carolina, Indiana, Washington State and Colorado.

Negative Income Tax under Richard Nixon

NIT was a policy proposed by then President Richard Nixon as a solution to the problem of poverty and job losses that emanated from industrial change. NIT remained progressive – with an embedded incentive to work more hours and increase earnings – and like UBI, it was

³⁶ Wired.com, Free Money: The Unsurprising Effects of A Basic Income Supplied by Government (December 2017) [accessed via: <https://www.wired.com/story/free-money-the-surprising-effects-of-a-basic-income-supplied-by-government/>]

simple – with little in terms of conditionality, multiple access points and different funding silos. Amounting to a total of \$225 million expenditure (in 1984 dollars) the US Government funded four separate experiments across the six states:

- New Jersey Experiment, 1968-72: 1,357 families in urban areas of New Jersey and Pennsylvania.
- Rural Experiment, 1969-73: 809 families in rural areas of Iowa and North Carolina.
- Gary Experiment, 1971-74: 1,780 families in Gary, Indiana.
- Seattle-Denver Experiment, 1971-82: 4,800 families in the cities of Seattle and Denver.

The experiments were designed to test the effect of a NIT on the supply of labour among recipients. The results were analysed in 1985 by Philip Robbins from the University of Miami who said in the *Journal of Human Resources* “... *the results are remarkably consistent. On average, husbands reduced labour supply by about the equivalent of two weeks of full time employment. Wives and single female heads reduced labour supply by about the equivalent of three weeks of full time employment. Youth reduced labour supply by about the equivalent of four weeks of full time employment*”³⁷.

While the experiment showed recipients worked fewer hours, commentators have argued that this allowed for higher long-term productivity, greater level of artistic and cultural development, and even more time spent at home with children (with a clear benefit for children). Nixon changed his mind regarding the pursuit of NIT as a policy idea, however, the seed was planted across the minds of the policy community that a more comprehensive and universal welfare system was possible and desirable.

MINCOME, Canada

Between 1975 and 1978, the Canadian Government trialed the Manitoba Basic Annual Income Experiment (MINCOME). An NIT program was administered in the cities of Dauphin, Winnipeg and other rural areas in Manitoba to examine the potential of guaranteeing an annual income for low income households as a means of reducing poverty and stimulating economic growth³⁸.

Participants were guaranteed an income of up to C\$5,400 per year (approximately C\$26,000 today), with a tax rate in some cases of 35 per cent (however, the experiment had 9 different treatment groups where other participants had a lower guaranteed income and higher tax rates)³⁹. The technical documents outline how “*The programme is universal in that it is not limited to specific recipient groups; it is objective since the benefit entitlement is not susceptible to discretionary*

³⁷ Philip K. Robbins, “A Comparison of the Labor Supply Findings from the Four Negative Income Tax Experiments”, The University of Wisconsin Press, Journals Division.

³⁸ <http://gregorymason.ca/mincome/>

³⁹ Simpson, Q., Mason, G. and Godwin, R. *The Manitoba Basic Annual Income Experiment: Lessons Learned 40 Years Later* (University of Toronto Press, 2017) [accessed via: https://umanitoba.ca/media/Simpson_Mason_Godwin_2017.pdf]

adjustment; it is income-conditioned since the major eligibility criterion is the income of the recipient, and finally it seeks to encourage labour force participation”⁴⁰.

The budget soon ran out, however, and the experiment was discontinued after a change in government and amidst pressure for austerity. There was no official report after MINCOME's ending, but in 1981 the Department for Health and Welfare, in conjunction with the University of Manitoba, commissioned the Institute for Social and Economic Research (ISER) to analyse the data⁴¹. Results found that over its four years of running family working hours decreased by 5 per cent, with little overall change in working habits, except for mothers taking longer maternity leave and children staying in education for longer.

Research by Derek Hum and Wayne Simpson, who published an analysis of the behaviour effects found more specifically that working hours dropped for men by 1 per cent, for married women by 3 per cent and for unmarried women by 5 per cent⁴². For youth, on the other hand, research found that in schools, pupils who belonged to families taking part in the experiment received higher test scores, had lower dropout rates and were more likely to continue education into adulthood.

Alaska Permanent Fund

Initiated in 1982, the Alaska Permanent Fund provides an annual payment to every Alaskan resident of approximately \$1000 (the value varies according to the performance in the oil market). Profits made from the state's oil industry are used for the distribution of the universal annual dividends⁴³. A study by Ioana Marinescu, an Economist at the University of Pennsylvania has found that there is relatively little difference to the share of employed Alaskans than what would be predicted without the fund, but that there has been an increase of 1.8 percentage points in part-time work⁴⁴.

Seneca Nation and the Eastern Band of Cherokee Indians

The Seneca Nation of Indians is a federally recognised Native American tribe in Western New York State. The tribe own the Seneca Gaming Corporation which owns and manages a collection of casinos, hotels, restaurants and other gaming and entertainment venues. Financial information is hard to find but a filing to the SEC showed gross revenues in 2008 of \$749 million with a net income of \$102 million⁴⁵.

⁴⁰ University of Manitoba, Mincome Manitoba Technical Report [accessed via:

<https://dataverse.lib.umanitoba.ca/dataset.xhtml?persistentId=doi:10.5203/FK2/XAGGJT>]

⁴¹ University of Toronto, *Manitoba basic annual income experiment (MINCOME), 1974-1979* [accessed via:

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⁴² <https://www.thoughtco.com/mincome-a-guaranteed-income-3321572>

⁴³ Wall Street Journal, *Giving Alaskans Free Money Didn't Stop Them From Working* (February 2018)

⁴⁴ Jones, D. and Marinescu I., *The labour market impacts of universal and permanent cash transfers: evidence from the Alaska Permanent fund* (2018)

⁴⁵ Accessed via: https://www.sec.gov/Archives/edgar/data/1296785/000110465908078660/a08-31100_110k.htm#Item6_SelectedFinancialData_102923]

This return has been redistributed via a Basic Income Guarantee (BIG), of which the current annuity to every adult between the ages of 18 and 60 on the reservation is \$8,000. Once a Seneca youth turns 18 and can show that he or she graduates from high school or has earned a qualification, they are entitled to a \$30,000 lump sum.

According to the Institute for Family Studies, the result of this generous BIG is disappointing, *“the money in these annuities is almost never saved for education. Despite a vast apparatus to help Seneca members set up businesses, almost no one starts one. Unless people are employed by the tribe (either through the casino or in tribal government), they are largely unemployed. Theft is also a problem... The results of all this can be seen in the poverty rates for the Seneca’s⁴⁶, which have continued to rise. Their territory is divided into two reservations. As of 2011, the Allegany reservation poverty rate was 33.3 per cent and the Cattaraugus reservation poverty rate was 64.9 per cent, the highest in Cattaraugus County. During the first decade that the casino was operating, the poverty rate in Cattaraugus County, which includes part of the Seneca Territory, increased from 12.8 in 2000 to 18.7 in 2011”⁴⁷.*

These results are not always consistent. The Eastern Band of Cherokee Indians own a Casino in North Carolina and redistribute profits to its tribal members, totalling a BIG of \$12,000 and child trust funds of above \$100,000 in 2016. Researchers from Duke University measured the effect of introducing the BIG on the state of children and adolescent emotions, household data (employment, income, crime and domestic breakdown). They found that the Eastern Band of Cherokee Indians who benefited from the programme were more likely to be lifted out of poverty, less likely to exhibit behavioural problems (such as depression, anxiety and addiction), children were likely to stay in school longer and there was little to no impact on labour supply⁴⁸.

Current Pilots: Finland, Glasgow and California

Finland - In January 2017, Finland began a two-year basic income program targeted towards unemployed job seekers. Under the current system recipients must show evidence of their earnings to KELA (Finnish Social Insurance Institution) every four weeks. This takes up a large amount of time and administration and leads to uncertainty among recipients as to how much they may receive. Under the basic income program, each recipient receives €560 per month, which does not alter as people go into employment. It is hoped that this will reduce bureaucracy and complexity and reduce disincentives to work for fear of losing benefits. Official data for this is yet to be released⁴⁹.

⁴⁶ University of Cornell, Cattaraugus: Country Profile 2017 [accessed via:

<https://pad.human.cornell.edu/profiles/Cattaraugus.pdf>]

⁴⁷ Riley, N. *What Can We Learn from Native Americans About a Universal Basic Income* (IFS, 2017)

[accessed via: <https://ifstudies.org/blog/what-can-we-learn-from-native-americans-about-a-universal-basic-income>]

⁴⁸ Wired.com, Free Money: The Unsurprising Effects of A Basic Income Supplied by Government (December 2017) [accessed via: <https://www.wired.com/story/free-money-the-surprising-effects-of-a-basic-income-supplied-by-government/>]

⁴⁹ Turunen, M. *Basic income: An answer to social security problems?* (OECD, 2017) [accessed via: <http://www.oecd.org/social/basic-income-an-answer-to-social-security-problems.htm>]

Glasgow - The councils of Glasgow and Fife are due to commence a unconditional cash transfer scheme that would be the precursor of UBI in Scotland. Current welfare schemes, such as JSA, working tax credits and state pensions will be replaced by regular cash payments not dependent on income for a targeted group of low income individuals. Any additional money earned, however, would be taxed. How it will be funded, and exactly who will be eligible to receive the basic income is yet to be decided⁵⁰.

California – In response to wage stagnation, rising house prices and loss of jobs, the mayor of Stockton is leading a UBI experiment involving 24 families commencing summer 2018. Following near-bankruptcy in 2012 as a result of over-investment in tourist attractions, leading to serious debt, the low-income residents will each receive a dividend of \$500 per month. Working hours and standard of living will be analysed as well as ‘self-esteem and identity’⁵¹.

⁵⁰ Independent.com, Scotland set to pilot universal basic income scheme in Fife and Glasgow (2017) [accessed via: <https://www.independent.co.uk/news/uk/home-news/scotland-pilot-universal-basic-income-ubi-snp-fife-and-glasgow-scheme-a7505411.html>]

⁵¹ WND.com, *California City To Experiment With 'Universal Basic Income'* (February 2018) [accessed via: <http://www.wnd.com/2018/02/u-s-city-to-experiment-with-universal-basic-income/>]