Creative citizen, creative state: the principled and pragmatic case for a Universal Basic Income

POWER TO CREATE

RSA

21st century enlightenment

Creative citizen, creative state: the principled and pragmatic case for a Universal Basic Income

Anthony Painter
and Chris Thoung

POWER TO CREATE

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Foreword

The publication by the RSA of this carefully researched and argued case for a Basic Income in the UK is an important moment in a growing debate.

The RSA is an independent and respected organisation with a 260 year history and a global Fellowship of more than 27,000 influential and motivated people. We are neither an interest group nor are we inspired by a particular political ideology.

Our shared goal is to expand the scope for human agency and creativity; what we call 'The Power to Create'. It is because we have come to see the value of a Basic Income in progressing this mission that we have prepared this report and committed ourselves to working with a growing international movement behind the principles of Basic Income.

While we believe these principles are both progressive and suited to 21st century challenges, the case for Basic Income will not win out without realism and rigor. This report lays out an approach which is practical, affordable and capable, we believe, of winning the support of people from different parts of society and with different political perspectives.

We have not sought to address every question that would need to be answered before Basic Income could be introduced, but we have explored the most important issues and shown that there are no insurmountable barriers to what would be a profoundly significant reform of our ailing welfare state.

As former head of policy for a political party and for a Prime Minister I am acutely aware of how difficult it can be to win the case for a change as far reaching and radical as a Basic Income. But I have also seen how ideas that have been around for many years, restricted largely to the margins of debate, can suddenly, in the right circumstances, acquire relevance and credibility. A rapidly changing economy and labour market, growing public concern about the workings of our welfare system, the aspirations of citizens, particularly younger ones, for greater freedom, control and responsibility are all contributing to a moment of inflection.

The time is right for an idea which has had powerful advocates for centuries to move to the centre of the debate about the kind of country, the kind of government and the kind of lives we want in the twenty first century.

I am confident that this RSA report will come to be seen as having made an important contribution, not just to making, but to winning the argument for a UK Basic Income.

Matthew Taylor
December 2015

Introduction

This is a report of a year-long study by the RSA into the potential benefits of each citizen being paid a 'Basic Income' by the Government. A Basic Income would fundamentally restructure the relationship between the state and the individual.[1] The RSA values the creative life and sees a need to underpin freedom with the right social, economic and institutional foundations. This is called the Power to Create. A Basic Income is an essential support for the power of people to reach their creative potential.

A Universal Basic (or Citizen's) Income is a universal income paid on an individual rather than household or means-tested basis. This report focuses on the compelling case for introducing a Basic Income in the UK. It has become increasingly clear that we are facing significant social change as we age as a society, technology impacts our economy and social life, and our welfare state is no longer fit-for-purpose.

Basic Income is one of the components of addressing this disjuncture. The major concern is ultimately people: the lives we are able to lead, our ability to have a sense of security so we can pursue our ambition, and our ability to contribute to supporting one another, innovating, and developing the creative potential of society. That is where Basic Income has the potential to be so much stronger than our current welfare state.

The post-war welfare state was grounded in hierarchy and solidarity. Even at its creation, many of its advocates were uncomfortable with a weaker emphasis on individual and civic creativity. These strains have become greater as the welfare state has become increasingly complex, bureaucratic, and intrusive. This direction has been reinforced in the benefits system in recent years by a coercive and arbitrary sanctioning system which leaves many of the least fortunate in dire straits. These stresses are intrinsic to the post-war settlement and they have become greater over time.

1 Adam Lent and Anthony Painter, "Let Citizens Spend Tax Revenues rather than the Technocrats at the Top," The RSA, 2014, www.thersa.org/discover/publications-and-articles/rsa-blogs/2014/07/let-citizens-spend-tax-revenues-rather-than-the-technocrats-at-the-top/.

At the same time, two major forces are increasingly impacting our lives. Firstly, there is technological change. Whether the new labour-saving technological innovations gathering momentum will lead to quite the pace of change in work that some have forecast is open to debate. What does seem clear, however, is that there is very likely to be underemployment, unemployment or the need to transition careers with some frequency for many. A Basic Income could provide a foundation to smooth working-life transitions.

Developed world societies are also ageing. Whether funded by state resources (ie the taxpayer) or through voluntary care that families and communities provide, the caring economy will expand. A Basic Income would help people care for their relatives, friends and neighbours without having to account for their actions to the state.

In the course of our year-long investigation, our work has connected with a growing, cross-spectrum movement behind Universal Basic Income. Trials have begun in the Netherlands and are expected in Finland. In fact, the Finnish Government is designing a national Basic Income system to replace large parts of their current welfare system. There is a referendum to introduce a Basic Income in Switzerland in 2016. Thinktanks on the right and left in the UK and the US have begun to investigate Basic Income (or variants thereof) further. From Silicon Valley entrepreneurs to German industrialists, support is becoming ever more mainstream. A Basic Income is a particular idea whose time may well be coming.

The Basic Income is underpinned by a strong ethos of creativity and capability, but is it viable?

To assess viability, we set out a series of tests. The first is a moral test. In other words, does Basic Income correspond with widely held moral precepts? Secondly, is Basic Income achievable within the parameters of the current system of tax, ie could it be fiscally neutral or near neutral? Thirdly, are distributional consequences of a Basic Income especially for the least well-off acceptable politically and in terms of justice? Finally, would Basic Income underpin widespread creativity when compared to current institutions?

In order to analyse properly these questions, we have interrogated the peer-reviewed Citizen's Income Trust model based on the 2012-13 tax and benefits system. This essentially maps a Basic Income onto currently available resources (albeit

transferring higher rate pension relief received by a relatively small number of taxpayers to the Basic Income of all taxpayers). We have made some changes to this system.

We have looked at how, by moving to a genuinely progressive tax system, resources could be transferred to those with children under the age of five. We also lay out options and costings for how children could be supported from the age of five to 16 in line with the current level of support. There are also some suggestions about how the small number of families who may still lose out in the transition could be protected without undermining the logic of a Basic Income system. A number of options for aligning housing benefits with a Basic Income system are also suggested. This last set of ideas will require further modelling.

The RSA model of Basic Income has the advantage of replacing the current system and its perverse incentives, intrusion and complexity entirely. It mitigates or eliminates losses that particular groups might experience. We provide this new scheme to inform debate. We do not claim it is the only way of achieving change but it does maintain the benefits of Basic Income such as simplicity and strong support for work whilst mitigating and eliminating some of its downsides such as some significant distributional impacts.

The distributional changes outlined provide one answer to any challenges of distributional fairness that may arise from transferring to a Basic Income system. Basic Income already has significant moral and philosophical virtues in that it underpins freedom and security. However, in the context of an often abrasive moral discussion about welfare ('benefit scroungers' etc) how does Basic Income fare? The answer is 'well'.

If you want to incentivise work at every level of income then Basic Income is simply the best system. Tax credits have marginal withdrawal rates near 80 percent at some (low) income levels. In the case of the Basic Income scheme laid out here, no basic rate tax payer faces a marginal withdrawal rate above 32 percent (though housing costs do need separate consideration). Individuals are guaranteed to earn significantly more in employment than out of it. This is a moral and political position that answers some current concerns about welfare.

Furthermore, there are design features that can be layered onto Basic Income to ensure that it is framed in a publicly

legitimate fashion. For example, on the model of the pledge for new UK citizens there could be a 'contribution affirmation'. Those aged 16-25 years-old would be expected to declare publicly how this income would be used to support them in learning, work, caring, volunteering or establishing a business. A Basic Income could be used to enable a more widespread system of citizenship service for late teens. A group of family and friends would undertake to support them in making this affirmed contribution over the course of a year. Basic Income would be receivable only by virtue of being on the electoral register (for over 18 year-olds) so would underpin citizenship.

On the fiscal test, the system we outline is not fiscally neutral. It would cost approximately an additional 1 percent of GDP. We explain how this is far from unprecedented a shift in taxation. Discretionary tax policies, even in a period of austerity, have been greater than this shift.

The 'creativity test' – where welfare institutions underpin the abilities of individuals and communities to turn their ideas into positive economic and social impact - is more difficult to assess. However, it is clear that the current system saps creativity through complexity, intrusion, and perverse incentives. There is evidence from Basic Income pilots in the less-developed world that it spurs entrepreneurship. In developed world pilots, it has been shown to enhance wellbeing through better education and health and these are important foundations for greater creativity. This remains a hypothesis but with enough evidence to warrant further testing.

That is why we advocate a Basic Income pilot on the lines proposed in Netherlands, Finland and Canada. This would involve a whole city or city-region adopting a Basic Income to analyse its impacts over a reasonable period of, say, five years. If the results were positive then it could be rolled out before the five years is up.

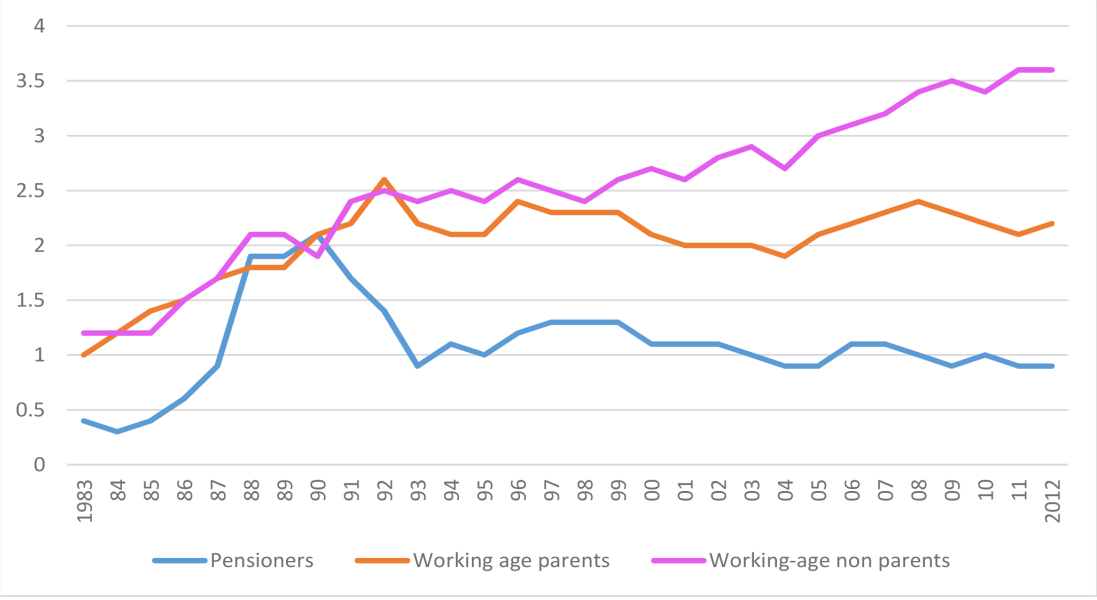
This paper aims to help the idea of a Basic Income reach a wider audience. Every generation needs to think afresh and pursue essential reforms. If we value freedom, equity and creativity then a fundamental recasting of the relationship between the individual and the state in favour of the former is now critical. The opportunity and possibility are both within reach.

The case in favour: an RSA model of Basic Income

a. Why is Basic Income back on the agenda?

Despite radical changes to the welfare system, in-work poverty for working age non-parents has vastly increased and there are still more than two million working age parents in poverty. The poverty reduction measures of the past decade and a half have barely dented working-age poverty – for non-parents it has increased:

Figure 1: Poverty and inequality statistics, 1983–2012 (poverty, millions)[2]



2 Source: Institute of Fiscal Studies, 2014 cited in John Curtice and Rachel Ormston, "British Social Attitudes 32" (London, 2015), www.bsa.natcen.ac.uk/media/38972/bsa32_fullreport.pdf.

The interaction between the welfare system and the current labour market is failing convincingly to shift poverty, indebtedness, dependency and insecurity. These strains will become increasingly apparent over time and the introduction of a highly complex Universal Credit system will only underscore the tensions. Difficulty in rolling out the scheme to just 18,000 of the expected seven million claimants, including the adoption of a costly but limited IT system, underline just how problematic and complex the system is.[3] The administrative and potential political costs are likely to escalate further.

Basic Income has a number of advantages over the current system. Benefit fraud is far less. It is not contingent on income and, therefore, the false reporting of income offers no advantage. Furthermore, as it is based on individual earnings, there is no household disadvantage to cohabiting. In this sense, it supports rather than potentially undermines strong relationships.

On a like for like basis, the Basic Income is, therefore, more supportive of the family. It focuses people on their relationships directly rather than the impacts of the welfare state on their relationships. These are strong messages in comparison with the current system.

Secondly, the spread of intelligent machines and new technology will impact the world of work considerably. Periods of retraining, entrepreneurship, lower hours and periods of unemployment could become more common. Indeed, a welfare system supportive of mobility across the life cycle will be critical. The current system fails in this regard focused as it is on work at all costs when workers might need periods of lower or no work to retrain. They may also wish to experiment with setting up a business without having the state breathing down their necks as they are claiming Tax Credits.

Nobody knows the impact of technological change on the workforce of tomorrow. However, there are some signs that technology could be one of the factors reducing hours. In the US in 1993 a total 194 bn hours of labour were performed. By 2013, despite a 42 percent increase in labour and an increase of 40 million in the workforce, the number of hours of labour

3 House of Commons Public Accounts Committee, "Universal Credit: Progress Update," 2015, www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/report-universal-credit-progress-update/.

was still 194 bn hours.[4] We are not seeing mass unemployment. Rather we may be seeing mass *underemployment*. To achieve the same income on fewer hours may well be a good thing. To struggle to meet your family's needs because you can't get enough hours work is quite a different thing altogether.

It is well established that the impact of rapid technological change is skills-biased.[5] With up to 47 percent jobs 'at risk'[6] as a result of their routine nature, a strong and secure system of welfare support is necessary. Some, such as David Autor, dispute this as a likely outcome.[7] However, even if there are net employment benefits of new technology, it is certain that we will see some significant redistribution of work and at least possible that this could happen rapidly.

Assuming likely redistribution of work, a system that allows and even encourages skills development, caring responsibilities, a decent safety net, and pursuit of an individuals' ideas such as setting up a business becomes even more important. Some categories of work will become obsolete and people need to be able to adapt whilst finding the best match for their skills. Basic Income is an underpinning for such a system – smoothing work transitions whilst providing security in an age of potentially rapid technological change.

Thirdly, there is the question of how creative capacities can be pursued. In an age when set career paths are less frequent and the attractiveness of traditional employers is diminished as seen through the expansion of creative hubs such as London's Tech City, the question of how access to creative opportunity

4 Shawn Sprague, "What Can Labor Productivity Tell Us About The U.S. Economy?," U.S Bureau of Labor Statistics 3, no. 12 (2014): 1–7, www.bls.gov/opub/btn/volume-3/what-can-labor-productivity-tell-us-about-the-us-economy.htm.

5 David H. Autor and David Dorn, "The Growth of Low Skill Service Jobs and the Polarization of the U.S. Labor Market," NBER Working Papers 103, no. 5 (2009): 1553–97, www.nber.org/papers/w15150; Carl Benedikt Frey and Michael A. Osborne, "The Future of Employment: How Susceptible Are Jobs to Computerisation?," Sept, 2013, 1–72, www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf; Erik Brynjolfsson and Andrew Mcafee, The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies (W. W. Norton & Company, 2014).

6 Frey and Osborne, "The Future of Employment: How Susceptible Are Jobs to Computerisation?"

7 David H. Autor, "Why Are There Still So Many Jobs? The History and Future of Workplace Automation," Journal of Economic Perspectives 29, no. 3 (2015): 3–30.

can be more widespread arises. We have a serious question to confront as a society: are we satisfied with the emergence of a privileged and self-perpetuating 'creative class' with concentrated social, financial and human capital[8] or do we favour a more democratic form of creativity?

The Power to Create perspective insists on the latter course. That requires a stable underpinning of which a Basic Income is one element. The type of open and spontaneous learning systems advocated in a previous Power to Create paper, *The New Digital Learning Age*, further supports this expansion of creative realisation further.[9]

Fourthly, we live in an ageing society. This will create new demands within families and in communities. Carers currently receive financial support but it is a very bureaucratic system. These allowances are means-tested and rules bound (eg you have to care for at least 35 hours per week in order to receive it). For this reason, the benefit is under-claimed by almost £1bn per annum. Basic Income allows people to more easily take time off, reduce their hours, or take short career breaks to care for an elderly, disabled or otherwise vulnerably person. These needs will increase over coming decades so greater flexibility will be necessary. Basic Income is very helpful in this regard.

Finally, a genuinely global, cross-spectrum movement is gaining force. The most surprising developments have been in the US. Free market thinktanks such as the Cato Institute and conservative commentators such as Yuval Levin have promoted and/or advocated a Basic Income. Meanwhile there are a number of advocates emerging in Silicon Valley.[10]

In Canada, the Mayors of both Calgary and Edmonton are behind the idea and they are soliciting the views of Canada's other mayors. The newly elected Liberal Party has Basic Income and a Basic Income approved as party policy. There is cross party support for a Basic Income in Prince Edward Island

8 Richard Florida, The Rise of the Creative Class - Revisited: Revised and Expanded (Basic Books, 2014).

9 Louise Bamfield and Anthony Painter, "The New Digital Learning Age: How We Can Enable Social Mobility through Technology," 2015, www.thersa.org/discover/publications-and-articles/reports/the-new-digital-learning-age/.

10 Nathan Schneider, "Why the Tech Elite Is Getting Behind Universal Basic Income," Vice, 2015, www.vice.com/read/something-for-everyone-0000546-v22n1.

Province.[11] In Germany, the high-profile entrepreneur, Goetz Werner, has been driving a campaign in favour of its adoption. A 2010 survey he ran showed mild public support and that people were attracted by the idea of 'financial independence' rather than the opportunity to reduce working hours.[12] There is a planned national referendum in Switzerland in 2016 following a powerful movement supporting a Basic Income. A limited experiment is taking place in Utrecht, Netherlands, which should provide some further data on its impact there. The new Finnish Government is also committed to implementing a Basic Income and will trial a scheme.

Taken together, these developments suggest a slowly gathering movement behind Basic Income. It is an increasingly networked global movement.

b. A foundation for contribution – Basic Income versus other welfare reform proposals

In *Inequality: what is to be done*, Tony Atkinson outlines the three fundamental forms of welfare. The first is social insurance which is on the basis of contribution (the original national insurance funded Beveridgean welfare state), the second is social assistance which is funded out of general taxation and directed towards the household (the Universal Credit), and the third is Basic Income. Atkinson favours a hybrid system of social insurance and basic-type income. His alternative to a Basic Income is a 'participation income', so has conditionality based on some socially useful activity within its design. The concern with this proposal is that it is the gap in the fence through which the costly, coercive, sanctioning state could return.

There is a widespread concern with the popular legitimacy of the current system. Many policy thinkers are trying to work

11 Roderick Benns, "Canada Looking to P.E.I. for Basic Income Guarantee," The Guardian Canada, 2015, www.theguardian.pe.ca/Opinion/Letter-to-editor/2015-08-10/article-4241498/Canada-looking-to-P.E.I.-for-basic-income-guarantee/1.

12 www.unternimm-die-zukunft.de/media/medialibrary/2013/02/studie_zum_bedingungslosen_grundeinkommen.pdf

out how the system can help a greater number of people out of poverty while avoiding a significant increase in the costs of the system. This explains a recent increase in interest in the 'contributory-principle'. In common parlance, this means that as you put more in you should get more out. This principle underpins the Atkinson proposals but it is also at the centre of policy reform proposals from Clark and Heath, Bell and Gaffney, Mulheirn and Masters and Lawton, Cooke and Pearce.[13] This is understandable given the deep flaws of the current system, the political environment and fiscal pressures.

Bell and Gaffney propose a flat rate £30 increase in the Job Seekers' Allowance (JSA) rate again based on previous contribution.[14] Lawton, Cooke and Pearce propose a similar contributory uplift for the JSA along with automatic support with mortgage interest payments where needed.[15] This uplift would not be means-tested, would last for six months and would be funded by savings elsewhere or income-contingent loans to be repaid on re-entering the labour market.

Mulheirn and Masters propose a 'lifecycle account' to provide additional income during a six-month period of unemployment.[16] A compulsory charge on income would be placed in a personal account. If funds were insufficient to restore income to 80 percent of previous levels then funds could be borrowed to be paid back from future earnings. This would be ensured by three guarantors who would apply social pressure and support as they would be liable for some proportion of any unpaid monies. This is the 'Facebook' element of the scheme. The accounts could be used for other purposes such as financing retraining on the basis of a higher contribution rate.

13 Tom Clark and Anthony Heath, Hard Times: Inequality, Recession, Aftermath (Yale University Press, 2015); Kate Bell and Declan Gaffney, "Making a Contribution" (London, 2012), www.tuc.org.uk/sites/default/files/contributory_benefits.pdf; S Mullainathan and E Shafir, Scarcity: Why Having Too Little Means So Much (New York, NY: Henry Holt & Company LLC, 2013); Kayte Lawton, Graeme Cooke, and Nick Pearce, "The Condition of Britain: Strategies for Social Renewal," 2014, www.ippr.org/files/publications/pdf/the-condition-of-britain_June2014.pdf?noredirect=1.

14 Bell and Gaffney, "Making a Contribution."

15 Lawton, Cooke, and Pearce, "The Condition of Britain: Strategies for Social Renewal."

16 Ian Mulheirn and Jeff Masters, "Beveridge Rebooted: Social Security for a Networked Age," 2013, www.smf.co.uk/wp-content/uploads/2013/08/Publication-Beveridge-Rebooted-Social-security-for-a-networked-age.pdf.

Like all the schemes above, the lifecycle account would be grafted onto a failing system. These ideas are worthwhile patches, motivated as a response to a legitimation crisis but the foundation of the system is shaky and they would provide fairly marginal support as a result. So these proposals could be in addition to the fundamental reform that is needed rather than the major reform that is needed itself. Indeed, they could all contribute an added dimension, in time, to Basic Income to form a modern welfare system.

The core of the system itself has to be addressed. Popular concerns about welfare have led to a revival of thinking around contributory welfare. However, the polling can be read in a number of ways. A poll by Greenberg, Quinlan, and Rosner found the following:[17]

- Respondents thought it more important that benefits should 'penalise scroungers' than reduce 'poverty and inequality' by a 49 percent to 44 percent margin;
- But 'making work pay' was seen as more important than poverty and inequality by 'an emphatic margin' of 57 percent to 33 percent.

The issue of 'making work pay' is at the very heart of Basic Income. This is why the benefit cap has been popular as a policy. The demand is not for 'more for more' as contributory systems offer. It is for 'less for less' – a lower income for less contribution.

More contributory forms of social support grafted onto the current system do little to address the need for a strong work incentive in welfare. The benefits are time-limited but the marginal rate of contribution increases – especially after a period of unemployment.

It is Basic Income and Basic Income alone that sends out absolutely clear yet non-coercive signals about the incentive to work. It also allows parents, carers, and learners to have a basic level of security to pursue their lives without interference. The income is a subsistence but so is the out-of-work income received through Universal Credit and contributory systems when someone is voluntarily out of the labour market. The point here is a critical one. **Basic Income is a foundation for**

17 Quoted in Clark and Heath, Hard Times: Inequality, Recession, Aftermath.

contribution. It incentivises work but supports other forms of contribution too. In this regard, it is the system of income support that best rewards contribution – albeit contribution defined beyond narrow cash terms.

Enhancements based on cash contributions over time could supplement Basic Income in a hybrid system as Atkinson has proposed. However, if the underlying systemic weakness is not addressed these will do little to re-legitimise social security and could actually compound some popular anxiety.

c. Where we are

Welfare systems are, in essence, moral institutions. Both the processes they adhere to and the outcomes they achieve are designed to represent and embody particular moral perspectives.

Expressed in the terms of Jonathan Haidt's moral foundations theory, the UK's current needs-based system contains elements of care, reciprocal altruism, loyalty (to expressed community virtue), authority and sanctity.[18] It has evolved over time to adapt to these moral imperatives. Recently, the fairness versus cheating axis has become particularly prevalent, ie reciprocal altruism. This expresses a notion of procedural justice - playing by the rules in law and spirit. This has led to a system of complex incentives, conditions and sanctions. It is very difficult for those who need support, which is a very significant minority, to understand the signals of such as system.

Over the course of many decades the welfare system has evolved enormously beyond the original Beveridgean goals of providing insurance to those (temporarily) out of work, to families or those in retirement. It has developed some harmful attributes.[19] Essentially, the system has faced a legitimacy crisis of declining public support – and in many respects still does so. This has led to series of incremental reforms under the banner of 'conditionality'.

Over time conditionality meant welfare institutions developing an elaborate set of rules applied in an often arbitrary

18 Jonathan Haidt, The Righteous Mind: Why Good People Are Divided by Politics and Religion (Penguin, 2013).

19 John Hills, Good Times, Bad Times: The Welfare Myth of Them and Us (Policy Press, 2014); Clark and Heath, Hard Times: Inequality, Recession, Aftermath.

manner. Claimants have increasingly found themselves touching a sanctions trip-wire. Benefit sanctions have trebled in the last few years and they have become more severe. Ninety thousand people a month are now sanctioned.[20] According to the UK Statistics Authority, 18 percent of Job Seekers' Allowance claimants received at least one sanction in 2013-14 (which rises to 22 percent for the whole 2010-14 period).[21] By contrast, there were just 220 convictions for tax evasion in 2014 which itself was an increase of 29 percent on the previous year.[22]

These sanctions have led to demoralisation, deleterious mental health impacts, indebtedness, poverty, learners being removed from vocational courses close to their completion and an expansion of food banks.[23] What began as an exercise in reciprocal altruism – where benefits apply only to those who 'contribute' - has become inhumane.

Universal Credit is intended to improve the interaction of the benefits system with the labour market. Originally, the rate of withdrawal of credits was slowed to create some small additional work incentives compared to the system the current Government inherited in 2010. However, changes made in the July Budget 2015 will mean individuals facing marginal withdrawal rates of up to 80 percent. The introduction of these changes were delayed in the Spending Review 2015 but they are still scheduled to proceed.

This is a highly complex and intrusive system. Once Universal Credit is in place, the self-employed will have to report their activities to the local Job Centre Plus. This is to close a loophole whereby people could declare self-employment as a means of evading paid work and continue to receive full Tax Credits. The logic of the system is for increasingly intrusive behaviour on behalf the welfare state. In theory at

20 Christina Beatty et al., "Benefit Sanctions and Homelessness: A Scoping Report," 2015, www.crisis.org.uk/data/files/publications/Sanctions Report 2015_FINAL.pdf.

21 UK Statistics Authority, "Benefit Sanction Statistics," 2015, www.statisticsauthority.gov.uk/reports---correspondence/correspondence/letter-from-sir-andrew-dilnot-to-dr-david-webster.pdf.

22 Venessa Houlder, "More UK Tax Evaders Going to Jail but Prison Terms Are Falling," The Financial Times, 2015, www.on.ft.com/1K37DgC

23 The Trussell Trust, "Low Income and Welfare Problems See Foodbank Numbers Rise by 38% despite Economic Recovery," 2015, www.trusselltrust.org/resources/documents/foodbank/mid-year-2014-2015.pdf.

least, the more it intervenes, the more it saves.

The main alternative proposition is a return to a contributions-based system, as we discussed above, aligned to the principles of the original welfare state as proposed by William Beveridge in 1942.[24] Such a system has political appeal.

However, there are problems here also. This is essentially the model of welfare seen in much of Northern Europe, especially in Germany and Denmark. The major issue is that such systems can become two-tier where those in relatively well paid jobs are secure whilst those in the casual, flexible, low-paid labour market are not. Indeed, the system could operate very much like the current UK system with an enhanced contribution layer on top to benefit mainly those on decent incomes. The other alternative is that the bar to contribution is set very low but then the system becomes too costly. The aim of reducing costs, along with the objective of enhancing work incentives, were reasons behind Germany's Hartz reforms in the 2000s. Contributory welfare does not provide convincing answers other than as an additional element to the system.

A more fundamental rethink is necessary. The RSA's preoccupation is the Power to Create.[25] A system that recalibrates the citizen-state relationship has the potential to provide a platform for enhancing creativity. Security is a foundation for creativity. As Gute et al have outlined, a clear foundation of support including financial support, values and common goals underpin creativity in a family setting.[26] Shafir and Mullainathan argue that complexity driven by scarcity of resources can impede sound decision-making.[27] They term this 'bandwidth scarcity'. The perpetual insecurity that the current

24 Mulheirn and Masters, "Beveridge Rebooted: Social Security for a Networked Age"; Field Frank, "Rebuilding Beveridge," 2012, www.frankfield.co.uk/latest-news/news.aspx?p=102468; Clark and Heath, Hard Times: Inequality, Recession, Aftermath; Lawton, Cooke, and Pearce, "The Condition of Britain: Strategies for Social Renewal."

25 Matthew Taylor, Power to Create (The RSA), 2014, www.thersa.org/discover/videos/event-videos/2014/07/power-to-create/; Adam Lent, "Politics Can't Be Improved until We Give People the 'Power to Create,'" May 2015, 2015, www.may2015.com/featured/politics-cant-be-improved-until-we-give-people-the-power-to-create/.

26 Gary Gute et al., "The Early Lives of Highly Creative Persons: The Influence of the Complex Family," Creativity Research Journal 20, no. 4 (2008): 343–57,

27 Mullainathan and Shafir, Scarcity: Why Having Too Little Means So Much.

welfare system creates is 'costly' in these terms.

There is a third approach to welfare: 'basic' or 'citizens'' income. The core elements of such systems are universality (every individual unconditionally receives an income as a right of citizenship), independence of labour-market status, and financed out of general taxation.[28] But is such a system right in principle and viable in practice?

We pose four key questions for any new welfare system to pass if it is to be both desirable and viable:

- Does the system accord with a widespread set of moral precepts?
- Is it broadly fiscally achievable within the parameters of existing taxation and expenditure?
- Is it distributionally just when compared to the current system?
- Will greater individual (and civic) freedom and creativity be realised?

Our conclusion is that a Basic Income, based on the available evidence, has the potential to be viable. As a moral and philosophical alternative to the current system it also has enormous merits. And there is a great deal to suggest that a Basic Income would better underpin human creativity than a means-tested system.

Below, we outline a Basic Income system that removes the highly negative effects of the current system and provides a basis for individual creative development. There is already real-world case material that suggests what these benefits may be. On this basis, there is now a case for a more serious public debate about replacing our welfare system – and, as a consequence, enhancing our societal creativity and freedom.

28 Anthony B. Atkinson, Inequality (Cambridge, MA: Harvard University Press, 2015); Citizen's Income Trust, "Citizen's Income: An Introducation," 2013, www.citizensincome.org/filelibrary/poster2013.pdf; Guy Standing, "Why Basic Income Is Needed for a Right to Work," Journal of Law & Urban Policy 2, no. 1 (2005), www.guystanding.com/files/documents/Why_basic_income_is_needed_for_a_right_to_work_Rutgers.pdf.

d. Basic Income: contribution and powerful freedom

Malcolm Torry of the Citizen's Income Trust has a very simple definition:

> "A Citizen's Income is an unconditional and non-withdrawable income for every individual. That definition never alters, and if an income does not fit that definition then it is not a Citizen's Income."[29]

Taxation and benefits are complex interlocking systems and can't be seen in isolation. One of the challenges in the current political discourse is that they have become separate entities in the conversation. In fact, impacts on the individual or household come about as a result of the interaction of tax and benefits.

Some have pointed to similarities between Negative Income Tax type systems and Basic Income. A Negative Income Tax is paid on an individual basis and Tax Credits are withdrawn as earnings increase. Universal Credit and Tax Credits are sometimes confused with Negative Income Taxes. However, as they are administered on a household basis they are in a different category. For a Basic Income or Negative Income Tax to be effective the withdrawal taper as earnings increase should not be too steep. In the case of Universal and Tax Credits the taper can be as much as 80 percent or more.

Our proposal is based on the Citizen's Income Trust 2012-13 scheme with some important fiscal adaptations. Housing and disability are not included in the model as a consequence. It is referred to here as the 'RSA Basic Income'. We have chosen the term Basic Income as it is the term that has become part of the international discourse around Citizen's Income-style systems. We also advocate a Basic Income rather than Negative Income Tax as a Basic Income is more identifiable as an asset for the individual. It is a regular amount people directly receive and it is clearly defined as opposed to being buried in a wage slip as current Tax Credits can be.

29 Malcolm Torry, 101 Reasons for a Citizen's Income: Arguments for Giving Everyone Some Money (Policy Press Short: University of Bristol, 2015).

The RSA Basic Income has the following key design features:

- It is a payment made to every citizen on a universal basis. EU nationals would receive it only after they had contributed to the system for a number of years as per prevailing EU law, and other international migrants would receive it in accordance with existing access to benefits rules. Those serving custodial sentences would not receive it until that sentence was concluded.
- It has a redistributive element from higher earners to families with children (some of whom are higher earners). We outline possible ways this could be achieved for illustrative purposes. This achieves a genuinely progressive tax system which is a prize in itself.
- The weekly amount that any working age person receives is a 'basic' amount. In other words, if they are fit and able to work they would have a very strong incentive to do so. And they would not get trapped at low or no earning levels. This contrasts very heavily with the current system.
- All recipients over the age of 18 could be required to be on the electoral register as a reinforcement of citizenship.
- One possible design feature is that each 18-25 year-old would be expected to sign a public '**contribution contract**'. This contract is not with the Government but with their local community. Receipt of the income will be dependent on this contract being signed. It will commit the recipient to contribute to the extent they are able through earning, learning, caring or setting up a business. Recipients will have to identify five witnesses, including two non-immediate family members, to support them. It will bring people together. Every individual's contract will be published so all can see. It is designed as a positive affirmation to establish norms, provide social support and underpin the contribution ethos. However, there should be no state monitoring of these contracts and sanctions will not be imposed.

The normative features of the RSA Basic Income model are vital. Behavioural science tells us that reciprocity is important but reciprocal relationships are more likely where there is an initial act of generosity. We should try to avoid Basic Income becoming simply an impersonal welfare institution. Tying its receipt, particularly in early adulthood, to a socially embedded contribution contract is, therefore, advantageous.

Behaviour insights can help develop the social aspect of the institution. The contract is essentially a 'commitment device' – a self-imposed way of encouraging oneself to achieve a certain goal (albeit one that is a requirement of the Basic Income). A strong reinforcement of this is necessary. A whole series of social interventions can be innovated as part of the system. The 'peer' support aspect of the system could be used to help one achieve goals. It is even conceivable that where someone wanted a strong commitment to achieve a certain goal (such as a learning goal) they could voluntarily agree to route their Basic Income via a proxy individual or organisation (such as a college or employer) who would release the funds as goals were achieved. A whole series of articulated commitments and devices such as 'if-then plans' (eg "If it is Monday evening, then I will volunteer at the Walthamstow Library") could be innovated to reinforce the contributory element of the scheme. This can be delivered through smart apps. Other than the published contribution commitment and the naming of five witnesses, these 'nudges' would be voluntary.

One elegant proposal for a design feature of Basic Income comes from the economist, Robert Frank. He proposes a system of supplementing Basic Income cash payments with offers of sub-minimum wage employment in publicly useful roles. The work would have to be **new roles rather than replacement** of current roles. The logic behind this idea is that the state is providing a Basic Income so it is reasonable that it should be able to supplement that to provide useful work that it wouldn't otherwise be able to fund at a higher level. The individual benefits, the community benefits, and public agencies and local authorities benefit. As Frank states:

> "Experiments have demonstrated the existence of many useful tasks that can be performed by unskilled workers with proper supervision. (Some examples:

> landscaping and maintenance in parks; transporting the elderly and handicapped (sic); filling potholes in city streets; replacing burned out street lamps; transplanting seedlings in erosion control projects; removing graffiti from public places; painting government buildings; recycling newspapers and aluminium and glass containers; and staffing day care centres). In combination, the Basic Income grant and the sub-minimum wage of the public sponsored job would be just enough to clear the poverty threshold."[30]

These various design features bring the system into even greater alignment with prevailing moral and political norms. In fact, with the design features above, there is little reason to see this system as any less affordable or morally and politically aligned than the current system. And the strength of Basic Income is the very strong work incentives it provides compared with the current system. Furthermore, it either corrects or mitigates other defects of the current system that we have identified: arbitrary punishment, state interference, and perpetual insecurity. In other words, it is a system that provides a stronger underpinning for contribution alongside powerful freedom.[31]

e. The RSA Basic Income model

We took the Citizen's Income Trust model as our basis because it is fiscally sound, peer-reviewed and practically achievable. The RSA Basic Income model has the following illustrative technical design based on 2012-2013 tax and benefits figures:

- Basic Income of £3,692 for all qualifying citizens between 25 and 65.
- Pension of £7,420 for all qualifying citizens over 65.
- A Basic Income for children aged 0-4 of £4,290 for the first child and £3,387 for other children aged 0-4:

30 Robert H. Frank, "Let's Try a Basic Income and Public Work," Cato Unbound, 2014, www.cato-unbound.org/2014/08/11/robert-h-frank/lets-try-basic-income-public-work.

31 Anthony Painter, "Powerful Freedom," The RSA, 2014, www.thersa.org/discover/publications-and-articles/rsa-blogs/2014/07/powerful-freedom/.

    - This is comparable to the benefits available to low-income households before the child begins school.
    - The amount for children and young adults aged from 15 to 25 is less than what low-income households receive under the current system.
    - We justify this on the basis that once children are in full-time education there is greater scope for parents to supplement their income.
    - There would be a reduction in the Basic Income for a third child or more, potentially to zero. This would reduce the cost of the system and would align it even closer with prevailing political and moral expectations.
- The above redistribution could be paid for by a charge on higher earners beginning at £75,000 per annum, with complete withdrawal at £150,000. This simply covers the cost of ensuring that those on low income with young children do not lose out in a transition to this system (and higher earners with young children benefit too).[32] We have also sought to ensure that there are few tax losses for earners beneath this £75,000 at a cost of £4.5bn to our model.

It should be noted this is an indicative model only. It establishes the core technical design and estimates the likely fiscal model of funding. We have confidence in the overall estimated amounts as they are based on the peer-reviewed Citizen's Income Trust model. The model is outlined below:

32 The net effect depends on assumptions about the age of first and additional children and ranges from a gain of £0.5bn to a further shortfall of £3bn.

Table 1: RSA Basic Income model

Age	Income per person (£)		Population mid-2012 (m)	Annual cost (£bn)
	per week	per year		
0-4				
First child	82.50	4,290	4.0	13.5-17.2
Additional children	65.13	3,387		
5-15	56.25	2,925	8.0	23.4
16-24	56.25	2,925	7.5	21.9
25-64	71.00	3,692	33.4	123.3
65+	142.70	7,420	10.8	80.1
TOTAL			**63.7**	**262.2–265.9**
State pension entitlements in excess of CP rate				15.0
Running costs				3.0
Total Cost of Citizen's Income				**280.2-283.9**

The scheme would be funded as per the Citizen's Income Trust model. The original Citizen's Income proposal would make a payment to every individual, with the values based on benefits rates in 2012-13. With the population figures updated to 2012 (to match the 2012-13 rates), this has an **estimated cost of £279bn** (see Table 2).

From removing benefits, tax reliefs and allowances (excluding those relating to disability and housing), the Citizen's Income Trust estimates **total savings of £272bn** (see Table 3).

All of these savings are intrinsic to replacing the current system with a Basic Income with the exception of the higher rate tax relief on pension contributions. We retain this feature of the system on the basis that a subsidy for a few could be redistributed to help all. There are other ways of achieving these revenues, via general taxation for example, but this is a good one.

Table 2: Citizen's Income Trust Proposal[33]

Age	Income per person (£)		Population mid-2012 (m)	Annual cost (£bn)	Description
	per week	per year			
0-15	56.25	2,925	12.0	23.4	Current income support rates
16-24	56.25	2,925	7.5	21.9	For 10-24 year olds
25-64	71.00	3,692	33.4	123.3	Current IS/ JSA/ESA rate
65+	142.70	7,420	10.8	80.1	Pension Credit rate
TOTAL			**63.7**	**260.5**	
State pension entitlements in excess of CP rate				15.0	
Running costs				3.0	
Total Cost of Citizen's Income				**278.5**	

Note(s): Income rates come directly from the original Citizen's Income Trust proposal and are based on the 2012-13 benefits rates.
Population figures have been updated to mid-2012, to match the 2012-13 tax year.

Table 3: Savings from benefits, tax reliefs and allowances[34]

Policy	Cost (£bn)
Child Benefit and Child Tax Credits	34
Working age benefits (Income Support, JSA, etc)	27
Working Tax Credits	7
Administrative savings and Tax Credits written off	10
Student grants and loans written off	3
Personal allowances (income tax)	68
Primary threshold and self-employed reliefs (NI)	23
State Retirement Pension, SERPS, S2P, Pension Credit, and MIG	90
Higher rate tax relief on pension contributions	10
Total	**272**

Note(s): Savings based on 2012-13 rates.

33 Source: Citizen's Income Trust, "Citizen's Income: An Introducation."
34 ibid.

f. Recent criticisms of the Citizen's Income Trust proposal

The idea of a Citizen's/Basic Income has attracted renewed attention in 2015. One recent critique comes from the Joseph Rowntree Foundation. In that paper, Hirsch[35] raises concerns that the original Citizen's Income Trust[36] is not revenue neutral. However, there are two aspects to neutrality:

- Revenue neutrality: the sum of all costs matches the sum of all savings in public finances.
- Distributional neutrality by individual: no individual or household is better or worse off.

In broad terms, the Citizen's Income Trust (CIT)[37] scheme claims the former, but not the latter whereas Hirsch[38] is simply pointing out that a distributional neutral policy would lead to a net cost. The most significant aspect of this is the £13bn extra it would take to ensure no losses for those households with children.

The original CIT scheme would mean that 21.12 percent of households in the lowest income decile would lose more than 10 percent compared with the existing system. The CIT outlined two possible alternative schemes to lower the losses in excess of 10 percent to somewhere between 1.09 percent and 5.38 percent of households.[39] This is achieved by introducing a lower Citizen's Income of £50 per week and counting that against gross earnings (and against the current means-tested benefits system).

However, these alternatives require higher tax rates and/or a considerably lower Citizen's Income and the retention of some Tax Credits. This modification reintroduces some of the negative elements of the current system (eg disincentive effects, complexity and state interference). This adaptation to the

35 Donald Hirsch, "Could a 'Citizen's Income' Work?," 2015, www.jrf.org.uk/report/could-citizens-income-work
36 Citizen's Income Trust, "Citizen's Income: An Introducation."
37 Ibid.
38 Hirsch, "Could a 'Citizen's Income' Work?"
39 Torry, 101 Reasons for a Citizen's Income: Arguments for Giving Everyone Some Money.

original model might prove to be an attractive transitionary scheme. If we want to see a genuine Basic Income system then these changes would have to be time-limited.

g. The RSA Basic Income model – an illustration of how losses to lower income families could be mitigated

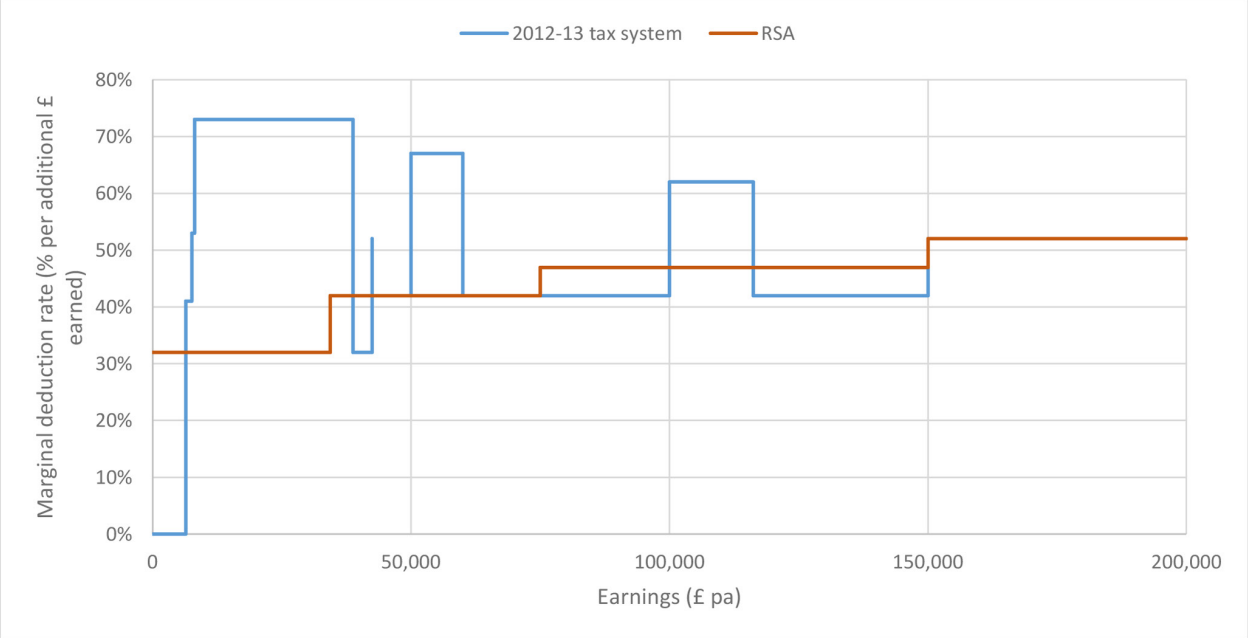
We have outlined an alternative approach here as we consider it to be necessary to modify the Citizen's Income to provide support for one particular group; that is for families who have children who are not yet of school age. Childcare commitments mean the earning potential of that group is severely curtailed so, just as is the case with pensioners, it is arguably right that they receive additional assistance.

The model outlined above provides an income for each child aged 0-4 years-old of £4,290 per annum for the first child and £3,387 per child thereafter instead of the standard child rate of £2,925. In distributional terms, compared to the original Citizen's Income Trust scheme, the RSA model **favours the poorest households with young children** and leaves the **richest somewhat worse off**. The marginal rates of withdrawal (ie net taxes/benefits) are illustrated in Figure 2 (on the basis of a single-earner, three child household – based on an Institute of Economic Affairs model from 2012 so deduction rates are an underestimate compared with the system that the Government is currently proposing).

It can be seen that the RSA model means equal or much lower marginal deduction rates for almost all tax-payers.

The RSA model serves as an illustration of a Basic Income-type scheme. There is of course scope for modification. As an example, rather than provide a higher amount of income for the first child while they are aged 0-4, all children aged 0-15 could receive an enhanced Basic Income of £3,387 (equal to the amount paid for children after the first, while aged 0-4). Such a scheme would, however, cost a further £3.7bn on top of the existing shortfall we have identified and is not included in the scheme above.

Figure 2: Marginal deduction rates under the 2012-13 Tax Credit system versus the RSA Basic Income scheme



The changes to the tax system that we have modelled above with the additional support for young children we propose would have a net cost in the range of £6.3bn to £10bn. When added to the estimated initial shortfall of £6.5bn under the Citizen's Income Trust proposal, this would mean a total additional cost of between £12.8bn and £16.5bn. This would be counter-balanced by additional income for maintaining a 50 percent additional rate above £150,000 which would raise between £100m and £3bn (depending on difficult to quantify behavioural impacts). This means a best case shortfall of £9.8bn and a worse case of £16.4bn. This sounds like a significant extra cost but it is in the range of the discretionary tax decisions taken in the last five years - and, indeed, over the course of the last generation.

In GDP terms, this change is likely to be in the region of 1 percent of GDP. Far more significant changes have been made to our system of tax and benefits in recent times.

Adam and Roantree[40] point out that the Government had found scope for three big tax cuts in 2015-16, totaling £19.5bn:

- Increasing the income tax personal allowance to £10,600: £8.0bn.
- Reducing the main rate of corporation tax from 28 percent to 20 percent: £7.6bn.
- Real-terms cuts to fuel duties: £3.9bn.

Furthermore, other changes made since are significant also. In the July Budget of 2015, changes to personal allowances, tax thresholds and inheritance tax came at a cost of £2.45bn by 2020-21.[41]

Jolyon Maugham[42] identifies further discretionary cuts to those quoted above that add up to very significant sums:

- £310m for increases in the higher rate threshold.
- A new marginal rate stamp duty system costs £785m per year by 2020.

It should be noted that these changes were in the midst of a period of austerity. So the notion that policy decisions necessary to underpin a generational change in the tax and benefits system somewhere in the order, say, of £10bn are impossible is pretty risible. Indeed, the Tax Credits systems expanded from £8bn in 1999-2000 to in excess of £25bn by 2010.43 There is significant scope for flexibility.

Following the 2015 Spending Review, the Resolution Foundation calculated the overall income of a variety of family types following the introduction of Universal Credit and the National Living wage. There were three family types who were not in receipt of housing benefit whose comparable

40 Stuart Adam and Barra Roantree, "The Coalition Government's Record on Tax," 2015, www.election2015.ifs.org.uk/article/the-coalition-government-s-record-on-tax.

41 HM Treasury, "Budget 2015,", 2015, www.gov.uk/government/publications/budget-2015-documents.

42 Jolyon Maugham, "Don't Be Fooled. The Money Is There to Avoid Cuts to Tax Credits," New Statesman, 2015, www.newstatesman.com/politics/economy/2015/10/don-t-be-fooled-money-there-avoid-cuts-tax-credits.

43 Declan Gaffney, "Has the Cost of Tax Credits Really Ballooned?," New Statesman, 2015, www.newstatesman.com/politics/economy/2015/10/has-cost-tax-credits-really-ballooned.

income, therefore, could be calculated. Below we compare the RSA's Basic Income model (with rates index-linked at the Office for Budget Responsibility quoted CPI rate) to the system that is scheduled to be in place in 2019-20.

Table 4: The RSA Basic Income model compared with the Resolution Foundation calculations of likely Universal Credit/ National Living Wage household income.[44]

Family		2020/21		
		New household income -current proposed system (£)	RSA Basic Income (£)	Gain (£)
1	Single, one child, under five, part-time (20 hours), wage floor	13,480	15,635	2,155
2	Single, one child, over five, part-time (20 hours), wage floor	13,480	14,090	610
3	Couple, two children (one under five), wage floor (one partner 37.5 hours, one 20 hours)	25,840	34,469	8,629
4	Couple, two children (both over five), wage floor (one partner 37.5 hours, one 20 hours)	25,840	33,946	8,106
5	Single, one child (over five), low earning (37.5 hours per week at £11.50 per hour)	18,930	22,889	3,959
6	Single, one child (under five), low earning (37.5 hours per week at £11.50 per hour)	18,930	24,435	5,505

Note(s): New household income in the current proposed system is as calculated by the Resolution Foundation on the following assumptions: Hypothetical outcomes assuming a new claim on Universal Credit. No behavioural impacts are assumed. Wage floors reflect OBR predictions for 2020 (a National Minimum Wage of £8.10 and a National Living Wage of £9.30. Inflation and earnings projections are taken from OBR assumptions published in Autumn Statement 2015.

George Osborne has, inadvertently, made a Basic Income more rather than less practically achievable as the burden is shifted from fiscal to labour market measures such as the National Living Wage. These also enhance the positive labour market incentives of a Basic Income.

44 Resolution Foundation, "Very Welcome Relief on Tax Credits but Most Losses Have Been Delayed rather than Reversed," accessed November 25, 2015, www.election2015.ifs.org.uk/article/the-coalition-government-s-record-on-tax.

h. Transitioning to a Basic Income system

Torry identifies two possible ways of implementing a Citizen's Income:[45]

- One demographic group at a time.
- Start with a small income for all and grow it to the intended rates over time.

In the first case, this would likely begin with groups that benefit from policies that most closely resemble a Basic Income: pensioners followed by children (in place of Child Benefit and Child Tax Credits). Torry argues that a Basic Income for those aged 55+ would reduce the stigma of no longer being in full-time employment and make part-time employment more viable, making time to care for older parents and grandchildren.[46]

Administering a Basic Income to this group would sow the seeds of community engagement and help to establish the norms for later recipients (particularly in terms of community involvement). Young adults (under 25) would follow to facilitate training and education and, from there, Basic Income could be extended up from 25 and down from 55 to complete the rollout.

One group that could lose out in the transition to Basic Income in the RSA model are low income, lone parents with children over the age of five. This is not something that we would support. Therefore, there may be scope for a transitionary measure whereby lone parents could continue to claim a Child Benefit top-up (which retains the non-conditional, non-withdrawable aspect of the Basic Income system, albeit introducing an element of household calculation). This transitionary benefit could be withdrawn as (i) the National Living Wage increased; or (ii) Basic Income rates increased.

The other main alternative to smooth the transition would be to introduce a smaller Basic Income and gradually increase

45 Malcolm Torry, Money for Everyone: Why We Need a Citizen's Income (Policy Press, 2013).

46 Ibid.

it while reducing benefits. This would allow more gradual adjustment by the labour market and for an evaluation of the transition. This is the model adopted for the Single-Tier Pension. It should be stated that the new Single-Tier Pension to be introduced in April 2016 is *very similar* to a Basic Income for pensioners. It requires 35 years of contribution to qualify for the full amount but, other than that, it is a Basic Income for all intents and purposes. It has been achieved through evolution from:

- Basic state pension plus state second pension to;
- Basic state pension plus pension credits plus state second pension to;
- Minimum Income Guarantee and finally to;
- Increasing basic state pension rates to the extent that it becomes a single state payment (as of April 2016).

A similar process could be followed for the remainder of the state benefits system: a Minimum Income Guarantee could be established for all qualifying individuals set at the level of the proposed Basic Income. This could then be gradually introduced to replace personal allowances, benefits, and credits over the timeframe of five to ten years. This could also be facilitated by moving the Universal Credit taper gradually along with the personal allowance moving down the income scale.

It could make sense to model different approaches in sub-national pilots. This would allow evaluation as the transition took place. A scheme could be introduced in a city-region or devolved nation. It would be done with consent of democratic representatives of the area so that it is freely entered into. Anyone resident there on a certain date would receive the Basic Income instead of Universal Credit. HMRC would effectively operate a shadow tax system for individuals in that area (as their personal allowances would be withdrawn). Job Centre Plus would become a work support agency and not a benefits administration agency in the area. The additional design features we advocate here such as contribution commitments and mandatory electoral registration would be assessed via a series of randomised control trials. Overall, a picture of a Basic Income compared to the current welfare system would be developed.

i. A Basic Rental Income

The other issue to be contended with is the interaction between Basic Income and other means-tested benefits. As with the Citizen's Income Trust[47] proposal, the RSA Basic Income model outlined above excludes any reform of housing or council tax benefits (and, for the record, disability payments). This part of the system is an important source of support to those at the bottom of the income distribution.

It will be important for these housing benefits to work with, rather than against, the rest of the system. The problem is that these benefits are withdrawn in accordance with a taper which will continue some of the disincentive effects of the current system should these benefits not be reformed. There needs to be modelling work on these proposals but three possibilities are worth exploring:

- The first is to devolve all housing capital and benefit budgets (housing and council tax) to combined local authorities. They can then adapt to local market conditions.[48] This goes with the grain of the current HM Treasury approach. It could increase the supply of lower rent housing and ensure benefits matched local rents on a sub-area basis. National minimum levels of support but also a maximum rate of tapering could be established to prevent the positive incentive effect of Basic Income being undermined.
- The adverse taper could be limited on a national level with housing benefit and council tax credit combined with tax/national insurance withdrawal rates limited to the maximum marginal rate of tax. This would be 47 percent at the current time.[49]
- The third option which the RSA proposes for further exploration is the introduction of a 'Basic Rental Income'. The Basic Rental Income would not be

47 Citizen's Income Trust, "Citizen's Income: An Introducation."

48 Graeme Cooke and Bill Davies, "Benefits to Bricks: Mobilising Local Leadership to Build Homes and Control the Benefits Bill," 2014, www.ippr.org/files/publications/pdf/benefits-to-bricks_June2014.pdf.

49 It should be noted that there is a current anomaly between £100,000 and £121,200 per annum where the personal allowance is withdrawn at a rate of £1 for every £2 earned. This gives a marginal tax rate that is higher than 47 percent. See www.gov.uk/income-tax-rates/income-over-100000

> income-contingent and therefore does not have the same disincentive or perverse incentive (eg family break-up) effects as housing benefit and council tax credit. A Basic Rental Income based upon local market conditions (and this would vary from year to year) would be granted to every individual who rented rather than owned a property. It could be linked to continuous residency (three years minimum say) to increase local cohesion. Local authorities would retain their statutory duty to house the homeless and should be given freedom to borrow and invest in new low-cost housing. The Support for Mortgage Interest Scheme for house-owners who are out of work would continue as now.

A Basic Rental Income would have cost implications. The source of funding for additional cost should be those who have gained the most from increases in housing equity. Philosophically, the justification for this has roots in Thomas Paine's argument in favour of a 'basic endowment'. The reason that there have been large gains for some in the housing market whilst others struggle is because our common institutions have failed to provide enough housing to enable affordable rents and housing ownership to be even more widespread. The introduction of a land value tax or similar to fund any shortfall in the Basic Rental Income is therefore justified on the basis of gains received by a few from the institutions of society and its collective action failures rather than through the individual's endeavour.

This is a means of redistributing the economic rents that have arisen from the institutional structures of land and property. Some such as Adair Turner argues that cooling the housing market should be a 'primary policy objective' from an economic stability perspective.[50] This policy would help quell some house price inflation as the demand for higher prices may be somewhat quelled.

Furthermore, both a land value tax and the Basic Rental Income together could provide for even more creative living

50 Adair Turner, Between Debt and the Devil: Money, Credit, and Fixing Global Finance (Princeton University Press, 2015), www.press.princeton.edu/titles/10546.html.

spaces. Co-operatives could come together by aggregating Basic Rental Incomes giving power to individuals acting collectively to design these new creative living spaces. This opportunity could be open to all. The beauty of this system, in principle, is that the imposition of land value tax would release further land for development. The Basic Rental Income therefore becomes empowering in a way that Housing Benefit is not given its stigma and the lack of security it provides. This proposal could revolutionise the way many people live further enhancing freedom, creativity and security. A Basic Rental Income is for further modelling and exploration that is beyond the scope of this paper.

j. Basic Income - the principled case

The idea of a Basic Income is far from new.[51] In fact, it has been around for many centuries. It can be found in the ideas of Thomas Paine in his notion of endowment funded by land rents. JS Mill articulated a similar idea though funded from productive assets. The liberal peer Juilet Rhys-Williams proposed a conditional Basic Income (conditional on availability to work) as an alternative to the Beveridgean system in 1942. The economist James Meade and the historian and political economist GDH Cole advocated a 'social dividend'. Cole may have coined the phrase 'Basic Income'.[52] Cole's justification relies on the social basis of current production as a common inheritance:

> "Social heritage of inventiveness and skill incorporated in the stage of advancement and education reached in the arts of production." [53]

The American writer and entrepreneur, Peter Barnes, deploys a similar argument when he advocates taxing use of common assets such as the environment (the air), financial infrastructure, intellectual property protection, and electromagnetic

51 For an excellent historical summary see: BIEN, "History of Basic Income," Basic Income Earth Network (BIEN), accessed December 3, 2015, www.basicincome.org/basic-income/history/.

52 G.D.H Cole, Money: Its Present and Future (London: Cassell & Co, 1944).

53 BIEN, "History of Basic Income."

spectrum to fund a US Basic Dividend.[54]

In the post-war era, the idea of a Basic Income re-emerged across the political spectrum. Liberal economists such as James Tobin and JK Galbraith advocated it on the basis that it was less likely to create welfare dependency than means-tested systems. Milton Friedman advocated a 'negative income tax' which works, in theory, in a similar way to a Basic Income. Friedman advocated a low level of income as did Friedrich Hayek. The socially conservative right as opposed to the economic-focused free market right have also supported the idea of a Basic Income. Charles Murray advocates a Basic Income on the grounds that:

> "It offers smaller government in terms of the state's power to control people's lives."[55]

The Republican notion of liberty as based on non-domination is important in Basic Income thinking. Republican liberty contrasts with natural liberty that, in the arresting phrase of Phillip Pettit, constitutes a 'freedom of the heath', ie it exists beyond society. Republican freedom instead is the 'freedom of the city' and so is concerned with freedom in a complex, social setting.[56] Basic Income is one safeguard against domination. As Stuart White argues, a Basic Income gives people the ability to act without interference of others.[57] The choices he or she makes are based on their own agency rather than the state or, indeed, an employer. It is a wedge of freedom.

This argument also has a Feminist dimension in that Basic Income frees women to make choices about their lives in an independent fashion and provides a greater degree of economic security for those in unwaged labour – often women. So arguments from a Feminist perspective emphasise its equal treatment of genders in the labour market and outside, its recognition of unpaid work, economic independence within

54 Peter Barnes, With Liberty and Dividends for All: How to Save Our Middle Class When Jobs Don't Pay Enough (Berrett-Koehler, 2014).

55 Charles Murray, "Guaranteed Income as a Replacement for the Welfare State," The Foundation for Law, Justice and Society, vol. 3, 2008,

56 Philip Pettit, Just Freedom: A Moral Compass for a Complex World (W. W. Norton & Company, 2014).

57 Stuart White, "The Citizen's Stake and Paternalism," in Redesigning Distribution, ed. Erik Olin Wright, Volume V, 2003, www.ssc.wisc.edu/~wright/Redesigning Distribution v1.pdf.

the family, and its potential to encourage a more equal division of labour within the family.[58]

Finally, there is the economic case for a Basic Income. On the macro-economic front, it becomes a very efficient means of stimulating the economy at times of heightened demand stress, ie deep recession. A simple way to increase demand is to top up the Basic Income for a period of time. Rather than quantitative easing supporting financial institutions, central banks can increase the money supply by funding government bonds to finance an increased Basic Income. So-called 'overt monetary finance' (OMF), which this would be a form of, has been advocated by Adair Turner and others, albeit with some provisos on management of banking credit to avoid unsustainable credit multipliers.[59] This policy could have been very useful in 2008-09 (and something akin to it was attempted in the Australian 'cash splash').[60]

On the micro-economic front, there are grounds to believe that Basic Income could increase productivity. This mechanism would work in a number of ways. Firstly, rather than workers being forced into the first job that comes along as some conditional systems do, Basic Income enables a little more time to search for the right job. As an evaluation of a highly conditional Department for Work and Pensions scheme showed, hard conditionality does little to increase medium term employment rates and only increases number of days in work marginally in a two year period.[61] So the benefits are minimal yet the UK suffers from endemic skills mismatch and this impacts productivity. For example, 58 percent of graduates are in non-graduate level jobs.[62] The Basic Income would not resolve this issue, as there are strong structural factors, but

58 Erik Christensen, "Feminist Arguments in Favour of Welfare and Basic Income in Denmark," in Basic Income European Network (BIEN) (Geneva, 2002), www.ilo.org/public/english/protection/ses/download/docs/chris.pdf.

59 Turner, Between Debt and the Devil: Money, Credit, and Fixing Global Finance.

60 Stephen Grenville, "Helicopter Money," VOX, CEPR's Policy Portal, 2013, www.bostonfed.org/economic/conf/conf30/conf30a.pdf.

61 Jonathan Portes, "The 'Help to Work' Pilots: Success, Failure or Somewhere in between?, National Institute of Economic and Social Research, accessed December 4, 2015, www.niesr.ac.uk/blog/help-work-pilots-success-failure-or-somewhere-between.

62 CIPD, "Over-Qualification and Skills Mismatch in the Graduate Labour Market," August (2015), www.cipd.co.uk/binaries/over-qualification-and-skills-mismatch-graduate-labour-market.pdf.

could mitigate it somewhat by giving more secure breathing space to individuals.

Secondly, if workers have the ability to withdraw their labour, it provides more of an incentive for employers of low pay, low quality jobs to improve those jobs either by increasing pay, providing better conditions or additional support such as for training. Thirdly, there is a possible motivation effect. Workers would be in a particular workplace because they want to be, not simply because they feel coerced to be. This is a healthier basis on which to develop intra-firm productivity. Finally, the Basic Income facilitates short-term withdrawal from the labour market to improve formal skills and qualifications. This could increase potential productivity. Basic Income is not an economic magic bullet but it is possible to see significant potential macro and micro economic benefits.

Thus, many different perspectives provide support for considering the introduction of a Basic Income. There is also a body of practical knowledge which, whilst not complete, provides some useful pointers.

k. Basic Income in practice

Between 1968 and 1980, the US and Canadian Governments conducted five experiments into negative income tax. These pilots have some significant limitations. The data was not always of high quality.[63] They were designed to separate control and treatment groups in areas so the impact on demand for labour is impossible to measure (if there was withdrawal of some labour, economic theory suggests that wages may be increased). Finally, the pilots were far more generous than the then existing Assistance for Families with Dependent Children programme so its impact was to introduce an additional scheme as opposed to a scheme that embodied a different set of principles.

Evidence suggests the pilots had a generally positive impact on health, school performance, home ownership, and low birthweight. However, there was some reduction in

63 Alicia H. Munnell, "Lessons from the Income Maintenance Experiments: An Overview," in Lessons from the Income Maintenance Experiments (Boston: Federal Reserve Bank of Boston, 1986), www.bostonfed.org/economic/conf/conf30/conf30a.pdf.

employment hours. Marginal withdrawal rates of the benefit were up to 80 percent which is likely to create a high disincentive to earn at the margins (in this regard the impacts of many of the pilots were more akin to Universal Credit than Basic Income). Despite this, there was absolutely no evidence that individuals withdraw from the labour market completely. The experiments found that men worked between 0.5 hours and four hours less per week. However, given the system design and their limited size (so negligible labour market impacts on the demand side through, for example, increased wages), it's impossible to draw any conclusion. Impacts on wives and single mothers were larger, potentially up to 166 hours per year.[64] Some women were choosing to spend more time with their families or in a period of maternity. Is that something that should greatly concern us?

The experiments compare the effects of having any system of social security with no system rather than comparing one system with another. The data should be treated with significant caveats though, nonetheless, it is still of interest.

There were positive results in the Canadian town of Dauphin in Manitoba province. A guaranteed income was provided to those who had fallen out of work with a 50 percent marginal withdrawal rate per C$1 earned on returning to work. It ran from 1974 to 1979. A recent survey of the data as it related to other services in Dauphin came to the conclusion:

> "We found a significant reduction in hospitalization, especially for admissions related to mental health and to accidents and injuries, relative to the matched comparison group. Physician contacts for mental health diagnoses fell relative to the comparison group. A greater proportion of high school students continued on to grade 12. We found no increase in fertility, no increase in family dissolution rates and no improvement in birth outcomes."[65]

64 Karl Widerquist, "A Failure to Communicate: What (if Anything) Can We Learn from the Negative Income Tax Experiments?," The Journal of Socio-Economics 34, no. 1 (2005): 49–81.

65 Evelyn L. Forget, "The Town with No Poverty: The Health Effects of a Canadian Guaranteed Annual Income Field Experiment," Canadian Public Policy 37, no. 3 (2011): 283–305.

A set of randomised control trials in Madhya Pradesh state in India from 2011 to 2013, also produced positive results. In the three year period 5,850 individuals received payments for more than a year. Whilst there are limitations in reading across from the different institutional environment in India, the outcomes are worth reporting nonetheless. Investment in housing increased. There was improved nutrition, partly as purchases shifted from ration shops to markets. School attendance and performance increased. There were positive equity effects as marginalised people had improved their bargaining position. The Basic Income grants led to small-scale investments – more and better seeds, sewing machines, establishment of little shops, repairs to equipment, and so on. This was associated with more production, and thus higher incomes. The grants led to more labour and work. Women gained more than men. Debt declined.[66]

Similar results were seen in Namibia. The percentage of those falling below the food poverty line (N$152 per month; the Basic Income Guarantee (BIG) was N$100 per month) dropped from 76 percent to 37 percent. The percentage of those being able to get a job or become successfully self-employed increased from 44 percent to 55 percent, and the amount of non-BIG income per capita rose from N$118 to N$152 indicating a virtuous economic growth cycle. [67]

Today, the US provides the most applicable Basic Income scheme in operation - the Alaska Permanent Fund Dividend. It is funded from oil and gas returns and pays out, on an annual basis, between $878 and $3,269 for each Alaskan. There is no reason why the funding basis of a scheme has to be oil and gas – it could equally be land or simply funded out of general taxation. Alaska is the tenth wealthiest US state so it is not unusually wealthy. There are number of notable impacts of the dividend. Firstly, it has enormous political support. It has been described as the 'third rail of Alaskan politics' – any politician who touches this electrified rail will die (it enjoys 80 percent support). Secondly, Alaska has one of the lowest poverty rates in the US, it is one of the most equal states and inequality actually decreased during the 1990s and 2000s (the Fund was

66 S Davala et al., Basic Income: A Transformative Policy for India (New Delhi: Bloomsbury Publishing India, 2015).

67 Robeyns, Ingrid http://crookedtimber.org/2009/06/02/the-basic-income-grant-experiment-in-namibia/ (2009).

introduced in 1982) – the only state where this was the case.[68]

What do these case studies tell us? Given institutional differences, data issues, comparability factors, none of these case studies is conclusive. We can say that where Basic Incomes or similar have been introduced they have had notably positive social effects overall. The impact on work incentives is inconclusive. Where some small negative labour market impacts have been observed, they are counter-balanced by social benefits such as mothers taking slightly extended periods of maternity leave. But neutral and positive work incentive impacts have also been reported. The knock-on impact on entrepreneurial activity in Madhya Pradesh is noteworthy from a freedom and creativity perspective.

This is the best real world data we have available to us. It is all useful and indeed suggests a social policy that is likely to be positive on balance. At least, a robust and positive hypothesis can be formed on that basis. More pertinently, as Karl Widerquist states, reflected on the US trials:

> "Reichauer (1986) asked what would have happened if the introduction of Social Security had been preceded by a similar experiment? It would certainly have shown that people saved less for their retirement, retired sooner than they otherwise would have, and relied less on traditional feelings of family responsibility for elders. Such findings would have challenged prevailing norms and would have given considerable ammunition to Social Security opponents."

The point is that any major reform of welfare comes with some downsides. Basic Income would be no exception. There is plenty of evidence to suggest, however, that the benefits significantly outweigh the costs.

68 Karl Widerquist, Independence, Propertylessness, and Basic Income: A Theory of Freedom as the Power to Say No (New York, NY: Palgrave Macmillan, 2013).

Concluding comments

Basic Income is an old idea, advocated across the philosophical spectrum which could answer the needs of this time. Neither the current system nor a 'contributory' alternative meets today's needs to the same extent: simplicity and clarity; properly supporting the lives of people, communities and families; enabling people to adapt to rapid technological change; and spreading the ability of people to develop and realise their creativity.

The negative distributional consequences of Basic Income can be heavily mitigated and even eliminated. There are practical systems that have been proposed – the RSA Basic Income model is one – and some in real world operation, most particularly in Alaska. The strong moral underpinning of providing basic support to all and ensuring work pays is also intrinsic to Basic Income. In the context of our four tests – moral alignment, fiscal viability, distributional fairness, and support for creativity – Basic Income is a system that has strong merits in principle and sufficient evidence to suggest merits in practice. This is why a Basic Income pilot in the UK at a city or city-region level should be explored. At least then, we would have a better idea of how it would work in practice.

Basic Income would be an important component of a new citizen-state contract. This contract is one that would underpin securely the creative capacities of each individual. It would be simple and could be as valued as it is in Alaska - the 'third rail' of Alaskan politics. Compare that to the complex and convoluted debate about tax credits, their impenetrability, and perverse impacts. The RSA Basic Income model would reward contribution, caring, and citizenship. Basic Income is worthy of much wider debate - one that is led by citizens rather than HM Treasury. We hope you'll join in.

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Anthony Painter
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About the authors

Anthony Painter, Director of Policy and Strategy
Anthony leads the RSA's work on policy development, organisation change and institutional reform. He focuses on a range of policy issues including the impact of new technology on the economy and society, reform to welfare, learning and skills, and reform to public services and a range of public institutions.

He previously directed the Independent Review of the Police Federation and has also worked with the BBC, the BMA, and the Metropolitan Police. He is author of three books, most recently Left without a future? Social Justice in anxious times.

He is on Twitter @anthonypainter and can be contacted at anthony.painter@rsa.org.uk

Chris Thoung, Economist

Chris is an economist and public policy researcher who previously worked at the RSA. He has experience in both the private and public sectors analysing issues in areas including economic policy, education, energy and climate change.

His recent work includes research into performance measures, inequality and student financing in education, and long-term assessment of UK infrastructure.

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8 John Adam Street
London WC2N 6EZ
+44 (0)20 7930 5115

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