NEVIN ECONOMIC RESEARCH INSTITUTE

UBS, UBI and the Alternatives

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Mixed economies

- Every high-income country is a mixed economy with a social or ‘welfare component’
    - A blend of private markets, commercially operating public companies, and partially or wholly de-commodified public services
- The welfare state is a form of economic and social organisation (a compromise)
    - Not just physical protection – promotion of economic and social well-being
    - Purposes include greater economic equality, protection for those unable to protect themselves, poverty reduction, basic income, minimum standards (education, housing, health)
    - Redistribution, provision of services and basic protections
- Different principles underpin different welfare states and different varieties of capitalism
    - Historical development and experience, power relationships, underlying economic structures, institutional rules of the game, culture

Types of welfare capitalism

- Social democratic (e.g. Nordics)
  - Based on principle of universalism
  - Provides high degree of personal autonomy
- Christian democratic (e.g. much of continental Europe)
  - Particular focus on social insurance and on subsidiarity
  - Reconciles protection and minimum standards with maintenance of social stratification
- Liberal (e.g. US)
  - Minimal de-commodification and means tested benefits
  - Social hierarchies are maintained

- Irish system is a hybrid of all three
  - UK is often considered liberal, albeit with a universalist healthcare system

Critiquing the welfare state

- Criticism of the welfare state exists on the left and on the right
- Pros and cons for:
  - Universalism
  - Social insurance
  - Means testing
- The desirability of the different models should be considered in light of their success at generating national and individual economic and social well-being
  - Average household disposable income, distribution of that income, quality and level of consumer durables (e.g. housing), quality and size of capital stock (e.g. infrastructure), quality of social services (education, health)
  - Intangibles – personal agency and control, employment, social capital, safety, democratic accountability

Justifying public services

- **The standard justification for government intervention is the accomplishment of some policy objective leading to an improvement in national welfare**

- **Public expenditure is ultimately justified only if its outcomes are consistent with society's overall goals** e.g.
  - Redistribution and poverty reduction (welfare and community supports)
  - Economic stability (countercyclical spending)
  - Market failure (e.g. natural monopoly, externalities – pollution/research)
  - Merit goods (e.g. education and health)
  - Public goods (e.g. defence, justice, environment)

- The sustainable level of spending depends on the level of revenue being collected and the sustainability of that revenue stream. In other words, the level of spending is a political choice

- Who gets what and why – political economy

Public spending in Ireland

- Ireland has the 2nd lowest level of per person spending (ex interest rates) amongst the wealthy EU countries. In 2019, spending amounted to circa €16,600 per person. The comparator average was just over €20,000, with per person spending ranging from €14,600 to €33,700
- Ireland's shortfall relative to the average is about €17 billion if scaled over the 2019 population of 4.92 million. The adult population was circa 3.9 million.
- Social protection spending was €20.9 billion in 2019, or about €4,200 per person. There were almost 2.1 million recipients in 2019.

Social Protection

- Social protection schemes are a mix of contributory (social insurance), and non-contributory (often means-tested) social assistance.
- There are existing universal payments e.g. child benefit, but overall the social protection system is not ideologically consistent – it has a hybrid nature.
- Ireland’s rate of enforced deprivation was 17.8% in 2019.
    - The deprivation rate was 36% for the unemployed, over 43% for those with a disability and over 45% for lone parents.
    - The rate for those living in rented accommodation was over 34% (10% for those in owner-occupied housing).

Universal Basic Services

- Universal Basic Services (UBS) which means free or low-cost public services available to all and funded by taxation approaches the poverty issue from the standpoint of cost of living.
- A non-exhaustive list of essential needs might include health, education, housing, transport, legal services, childcare and adult care.
  - What about food, water, electricity?
  - What about digital access and broadband? (coronavirus has shown these to be essential for participation in a modern society)
- For some of these, policies designed to ensure sufficient minimum incomes for all might be more appropriate
  - Depends on context and policy design

De-commodification and right of access

- An expansion of UBS is at least theoretically feasible given existing levels of spending
    - Trade-offs in terms of the need for either higher taxes, higher social contributions or less resources for other areas of government spending
    - Ireland’s revenue to GNI* ratio was 36.8% in 2019. EU average was 39.1%
- UBS amounts to a de-commodification of the affected range of services
    - Access based on need and not ability to pay
    - Diminishes the importance to the household of market income and disposable income.
- Would the current system be adequate if we had free health, education and childcare along with heavy subsidisation of other basic services including housing?
- Not about state control – core issue is that access is affordable, universal and guaranteed (also minimum standards)

Universal Basic Income

- An alternative approach to UBS is to focus on household incomes
- UBI is a fixed cash grant provided on a weekly or monthly basis
- Given directly to all adults individually
  - Could be extended to children
  - Could be larger amounts for certain groups (e.g. disabled, pensioners)
- Meant to cover part or all of basic living expenses
- Comes with no conditionality
- The UBI is <u>not</u>:
  - A negative income tax
    - i.e. money credited as allowances to a taxed income, and paid as benefit when it exceeds debited tax
  - A guaranteed minimum income ‘top-off’
    - i.e. an enforced income floor (poverty threshold) with government topping up incomes at the end of the year (potentially a 100% marginal tax rate at low incomes)

Common arguments in favour of UBI (1)

1. If set high enough it would eliminate poverty and deprivation (its an insurance programme)
2. It would reduce inequality
3. It eliminates any ‘loss of dignity’ or ‘compulsion’ associated with welfare payments
4. It provides individual security and freedom (payment is to the individual not the household)
5. It reduces administrative costs
6. It could induce higher rates of saving and investment
7. Might improve socioeconomic cohesion

Common
arguments in favour of UBI (2)

8. It encourages entrepreneurship (safety net)

9. It encourages learning and career breaks

10. It encourages civic engagement and volunteerism

 and acknowledges care work

11. It could lead to less economic crime

12. It gives a certain freedom ‘not’ to take bad job and encourages strategic career decisions as opposed to ones based on short-term survival considerations

Support on the political right and left

- Left:
  - Eliminates poverty
  - Provides security from economic oppression (individual bargaining power)
  - Provides Republican freedom
  - Eliminates the benefit trap (people often lose out financially if they take-up work under the current system)
- Right:
  - Weakens government and the bureaucratic state
  - Maximises the individual’s freedom to choose
  - Helps preserve the market against revolt by the 99%
  - Thin end of the wedge – opens up an assault against the welfare state

Common arguments against UBI (1)

- Moralistic arguments (usually right wing commentators)
  - People are lazy – it will disincentivise work and create a dependency culture
  - It will just go on luxuries, alcohol and tobacco
- Economic arguments (right wing and/or left wing)
  - Its just too expensive (€10,000 per adult would cost €39 billion - €10,000 per person would cost €49 billion)
  - It will create inflationary pressures in the economy
  - Prices differ from region to region (e.g. housing/rental costs in Dublin) so a UBI would not be have equivalent real value in different regions
  - Potentially negative employment effects – pushing up wage costs

Opposition on the political right and left

- Left:
  - Thin end of the wedge: opens up an assault against the welfare state (i.e. privatisation of health, education and public transport)
  - Might undermine trade unions and push down real wages (subsidy to profit-making companies in low wage sectors)
  - Extremely costly (will lead to cutbacks in other areas of public spending
  - Scarring effects (long-term unemployed)
- Right:
  - Lazy ‘free-riders’ will get something for nothing
  - People will refuse to take low pay jobs (pushing up wages)
  - Extremely costly (will push up taxes)

Designing a UBI

- We would need to think about how to implement it without:
  - undermining social protection and commodifying services,
  - introducing labour market distortions and disincentives,
  - contributing to insider/outsider relationships in the 4th digital revolution,
  - imposing onerous costs on the state/Exchequer
  - And (most of all) requiring people to commit to a systemic change in which so many outcomes are unknown and which reversing would be highly costly
- In practice there would be a transitional period
- Also, it needs to be large enough to have a non-trivial impact on income distribution <u>and</u> be affordable

Paying for UBI…..

- The ILO estimates the cost of UBI at 100% the national poverty line for adults and 50% for children up to 15 years old at a prohibitive 28.4% of GDP
- Could replace part of the existing social protection budget (e.g. Jobseeker's allowance, family income supplement, child benefit)
    - Administrative and other savings
- Abolish existing subsidies
- Tax increases
    - Eliminating tax expenditures (these are mostly regressive)
    - Carbon tax, wealth tax, inheritance tax, land tax, property tax, financial transaction tax
    - An increase in the income tax/PRSI would be inevitable…….

Alternatives to UBS and UBI

- A cheaper option to UBI would be to create a basic income priced well below the level needed to meet all essential needs.
- In that case, secondary benefits would need to be retained to provide additional supports for at risk groups.
- Other cheaper and not necessarily comparable options include:
- A **partial UBI** (e.g. refundable tax credits)
- A **job guarantee scheme**
  - Must not be coercive (a thin line between incentive and punishment)
- A **minimum income** for all adults
  - Issue of high marginal effective tax rate – labour market impacts (would require very gentle tapering)

Opportunity costs

- Ultimately, the desirability of different welfare state models should be considered in light of their success at generating economic and social well-being.
- Expanding UBS or introducing UBI would have significant opportunity costs.
- Doing both together could only happen in the context of significantly higher levels of government revenue.
  - Is there a case for taxing all income?

Conclusion

- Strong case for expansion of UBS as critical investments in the social infrastructure needed for economies and communities to flourish
- The economic rationale for infrastructure and R&D spending is well understood but:
  - Expansion of services like free or very low cost childcare and adult-care would have a positive impact on potential growth by reducing barriers to labour force participation and education
  - Expansion of free or low cost mass transit would assist with climate targets
  - A larger role for the state in housing can assist with cost of living issues (competitiveness) and if designed properly can be an important countercyclical tool
  - Free adult education reduces barriers to up-skilling and human capital development
- What are the appropriate bounds of the welfare state?