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Universal Basic Services

Debating UBS and the policy alternatives

This NERI long-read discusses some of the main issues pertaining to the medium-term potential for expanded provision of universal basic services (UBS) in the Republic of Ireland and in Northern Ireland. The long-read is a complementary piece to previous discussions on the just transition and the playbook for building a 2020s economy.

What are universal basic services? We can think of universal basic services as synonymous with the provision of free or extremely low-cost public services available to all and funded by taxation.

Expanding the provision of universal basic services is one of the most structurally important policy shifts that any government could take from an economic inequality and cost-of-living perspective. Such a policy programme would amount to a de-commodification of the affected range of services. As such, it would diminish the importance of market-based income.

There are other potential benefits. For example, expanding universal basic services to ensure accessible public transport for all would assist countries in reducing carbon emissions in a manner consistent with just transition principles. This is particularly relevant in the context of higher taxes on carbon usage.

An expansion of universal basic services is affordable, albeit with a significant caveat. In both jurisdictions the implied increase in public spending would require tax reform and an overhaul of social security.

There would need to be an open discussion about the trade-offs in terms of the need for either higher taxes, higher social insurance contributions, or less resources for other areas of government spending.

Even so, we can confidently say that an expansion in provision is at least theoretically affordable because public spending levels in both the UK and the Republic of Ireland are substantially lower per person than the level of spending in other high-income European countries.

What would an appropriate policy framework look like. A good underpinning principle is that right of access to basic services should be on the basis of need and sufficiency and not ability to pay.

So what are these basic services?

A non-exhaustive list of essential needs might include health, education,

Universal right of access to basic services should be on the basis of need and not ability to pay.

housing, transport, childcare and adult care. Additionally, a case might be made for including other needs, for example, food, water, legal services and electricity.

For some of these items, policies designed to ensure sufficient minimum incomes for all might be more appropriate. It will depend on the context and the policy design. Finally, the coronavirus pandemic has revealed that access to digital services and broadband are now essential requirements for full participation in a modern society.

Not all of these services need necessarily be provided directly by central governments. The decision on the delivery vehicle of any particular service could be economic, fiscal and regulatory efficiency. What is crucial from a policy perspective is that access is affordable, universal and guaranteed.

Most OECD countries provide some form of universal basic service in at least one of the above areas. Education is by far the most common example. Even so, in many countries, free or heavily subsidised education is only available to children. Every country has its own individual suite of universal services. The United Kingdom provides healthcare as a universal basic service through its National Health Service, while the Republic of Ireland provides free public transport for everyone aged 66 and over, as well as free water for most of the population.

Universal service provision amounts to a virtual income or 'social wage' and is preferable to cash transfers in many instances. Anna Coote and Andrew Percy build the case that UBS offers benefits that range across four dimensions: greater equality, efficiency of outputs, solidarity and environmental sustainability.

An expansion of universal basic services is affordable.

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Every high-income country in the world today is a mixed economy with a social or 'welfare' component. In other words, they comprise a blend of private markets, commercially operating public companies, and partially or wholly de-commodified public services.

We can think of the welfare state as a form of economic and social organisation in which the state plays an active role in the protection of its citizens. Not just physical protection and the maintenance of order, but promotion of the economic and social well-being of its citizens.

The welfare state reflects the mixed economy. It is a compromise between capital and labour – not socialist but not truly capitalist either. The welfare state has many purposes including greater economic equality, protection for those unable to provide for themselves, poverty reduction and basic income, and minimum standards in housing, education and health.

The welfare state encompasses the redistribution of income and wealth via taxation and social transfers, the provision of public services such as education, as well as basic protections such as a state funded pension. The welfare state can be seen as a combination of collectivism, capitalism, social welfare policy and democracy. Alternatively, it can be seen as an attempt at decommodification within capitalism through compromises with capitalism.

Different principles underpin different welfare states and different varieties of capitalism. Some countries, such as the United States, operate residual welfare states. The Nordic countries are at the other extreme with public spending in excess of half of the size of economic output. Historical development and experience, the institutional rules of the game, power relationships, societal pressures, and the underlying structure of the economy will all influence the evolving form of economic system pursued.

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Welfare states existed in nascent form in the late 19th century. For example, Bismarck's Socialstatt of the 1870s and 1880s enacted social insurance laws that went beyond poverty relief. Australia, New Zealand and Denmark introduced old age pension schemes in the 1890s and Uruguay developed a welfare state around the turn of the 20th century.

Sweden developed a new mixed economic model in the 1930s based on compromise between trade unions and corporations. The Swedish model is based on strong unions, a well-funded social insurance system, universal healthcare, and cradle to the grave protection.

The welfare states of the late 19th and early 20th century were often enacted by conservatives. Indeed, the creation of the welfare state was seen as a way of defusing socialist and leftist sentiment and protecting capitalism itself. The Great depression of the 1930s and then the Second World War provided further impetus to expand the role of the state. A notable development was the early 1940s Beveridge Report in the UK which developed the framework for a national insurance system, arguing that government should provide adequate income, education, healthcare, housing and employment for all. The post-war government subsequently enacted many of these reforms.

All Western countries today contain at least some welfare state elements. There are now broadly three main types of welfare capitalism.

The **Social democratic** welfare state is common to the Nordic countries and is based on the principle of universalism. Benefits and services are accessed based on citizenship and are automatic depending on status, for example age status or employment status. Universalist systems provide a high degree of personal autonomy and diminish reliance on family or on the market.

The **Christian democratic** welfare state is common to much of continental Europe. It is based on the principle of subsidiarity from central authorities. This is the idea that services should be provided at a local or private level as much as possible, albeit often with some state support. There is a particular focus on immunising citizens from market dependency through social insurance schemes. This reconciles protection and minimum standards with maintenance of social stratification.

Finally, countries with a **liberal** regime, which includes most of the Anglo-Saxon countries, but also Japan and Switzerland, tend to prefer private provision of services, market dominance, and means tested benefits. There is minimal de-commodification of services, while benefits are generally means tested to ensure basic provision of needs. Social hierarchies are maintained.

There are broadly three main types of welfare capitalism

The UK model is generally considered a liberal welfare state albeit one that operates a distinctly universalist healthcare system. The Republic of Ireland has a hybrid system that uses a mix of means-tested, insurance based and universalist income support and service arrangements. It can be characterised as a non-ideological or ‘mongrel’ system.

There are criticisms of the welfare state from the political left and from the political right

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The welfare state has attracted significant albeit shrinking criticism from across the political spectrum. Some on the left argue that welfare state provisions are bribes that protect existing hierarchies, that do not transform work practices, and that undermine the potential for transformative economic change. On the other hand, some on the right contend that the welfare state makes people lazy, undermines private bonds such as family, increases taxation, and reduces economic efficiency.

Adherents for **universalism** can point to the success of the Scandinavian or 'Nordic model' in achieving excellent welfare outcomes. As well as the strongest employment rates in the world, the Nordics have achieved low child poverty, low poverty amongst women, high rates of female labour force participation, and low levels of inequality. The Nordic model is based on strong egalitarianism, a monopoly role for the public sector as service providers, along with generous income transfers. Despite high taxes, the universalist welfare states tend to rank amongst the most competitive in the world with very high levels of labour productivity and per capita output. These countries also tend to perform very well across many well-being indicators.

The case against universalism hinges on the need for a high level of employment and a willingness to pay high taxes. High taxes require high levels of social trust if they are to achieve and maintain public support. At the same time, universal measures once enacted are politically difficult to reduce or remove and this constrains future fiscal policy. In addition, in open economies the corporate sector will need to be capable of remaining competitive despite the high taxes. It may be that such a model is only feasible for high value-added economies. Finally, critics of universalism argue there will inevitably be deadweight inefficiency when public resources are used on people that do not need them.

The Nordic model has achieved strong welfare outcomes

The **social insurance** model is easily understood. Defined populations share common risks such as sickness or loss of employment. The pooling of contributions into a central fund provides protection for the randomly generated victims of these risks as modest contributions scaled over the population can generate substantial revenues. The model is ideologically neutral with employers coordinated to share risk with their employees and with each other. Crucially, the social insurance system is not a charity model – entitlements are paid for through contributions. The replacement income is usually linked to previous earnings and therefore protects the individual's standard of living.

The early Bismarckian social insurance models were problematic because they only protected certain groups such as the employed and males. Privileged groups would often resist the inclusion of other groups. There are additional concerns. Linking payments to previous earnings maintains social hierarchies and may not offer any protection to those experiencing difficulty accessing paid work such as people with disabilities, younger people, women, and minority groups. While the Beveridgian reforms of the 1940s moved from occupational solidarity to national insurance the reality was that certain groups remained disproportionately likely to be excluded. The social insurance model also places a high direct tax wedge on employees and employers and this may negatively impact on national competitiveness.

Even so, the social insurance model does prevent living standards from falling when at risk. Such a model would work best and could be progressive if introduced as part of a policy package aimed at full employment, solidaristic wage bargaining, strong income floors and free or heavily subsidised public services.

Finally, the **liberal** or 'targeting' model is a much cheaper alternative to universalism as it in theory reserves social protection resources for those with the greatest need. This potentially avoids the deadweight inefficiencies of universalism. The resources saved can be redeployed to tailor high-support programmes for those suffering multiple disadvantages.

In practice, targeting can require complex administrative support and its arbitrariness can lead to perverse outcomes. Means-tested benefits can, unless carefully designed, produce significant disincentive effects for their recipients with unintended employment implications arising from a high marginal tax rate. The system can therefore become a trap for low-income households.

In addition, means tested benefits often attract social stigma which may lead to social exclusion or even discourage people from ever availing of the supports. Finally, targeting models tend to have less buy-in from wealthier households that won't benefit directly. The reduced 'willingness-to-pay' often serves to undermine the welfare system over time. In particular, such programmes can be vulnerable to cutbacks during an economic downturn.

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The relative desirability of the differing models should be considered in light of their success at generating national and individual economic and social well-being. Reported happiness levels are one potential yardstick. Potential measures of economic well-being include average household disposable income, the distribution of that income, the quality and level of consumer durables such as housing, the quality and size of the capital stock including infrastructure, and the quality of social services such as health and education.

Also relevant are intangible factors which reflect personal agency and control of one's life – examples include employment, social capital, safety, and democratic accountability.

The relative desirability of the differing models should be considered in light of their success at generating economic and social well-being

There is little political consensus over the proper role of government in achieving these aims. The liberal market economies emphasise market mechanisms, whereas the more social market economies of continental Europe place greater value upon collaboration.

Ultimately, government intervention is justified if it will accomplish a policy objective leading to an improvement in national welfare. Examples of policy goals might include poverty reduction, economic stability, or amelioration of a market failure such as excess pollution.

The sustainable level of government intervention and 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. Even so, no single item of public spending should be considered sacrosanct per se – there is always the possibility of a more efficient or better way to achieve a policy objective.

The varieties of capitalism have differing conceptions of the 'proper' role of government in regulating the economy

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THe United Kingdom is usually considered a liberal market economy of the Anglo-Saxon tradition with an emphasis on targeted supports. This is somewhat of a simplification. Notably, the UK's health system, unlike say in the United States, is provided as a universal service based on need rather than ability to pay.

The Republic of Ireland is harder again to characterise. Its hybrid welfare system uses a mix of means-tested, insurance based and universal income supports.

Child benefit, primary and secondary education, and services to the elderly are all provided on a universal basis. On the other hand, medical cards, social housing and family income supports are means tested. There is much less of an emphasis on the social insurance model. Private pension contributions and private health insurance have historically attracted generous tax reliefs that de facto operated as state subsidies for private incomes in old age and for private health insurance. These tax reliefs reinforce inequality of income and access. Finally, non-state actors such as family members play a dominant role in the provision of childcare and adult care.

The Republic of Ireland's welfare system does not appear to be ideologically consistent – it has a hybrid nature

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The idea of a Universal Basic Income (UBI) has gained attention in recent years as a potential panacea. It is worth discussing what it is as well as its relative merits. UBI is a fixed cash grant provided on a weekly or monthly basis. It would be given directly to all adults individually and could be extended to children.

Supplementary amounts could be given to certain groups such as pensioners and the disabled. The UBI is meant to cover part or all of basic living expenses and comes with no conditionality. The UBI is not a negative income tax or a guaranteed minimum income top-up. It is a universal payment.

There are a number of arguments proposed in favour of a UBI. Most compellingly, if the UBI was set high enough it could eliminate poverty – making it a form of anti-poverty insurance programme. It would reduce inequality by compressing the income distribution. It could also eliminate the loss of dignity or compulsion associated with welfare payments. It would provide individual security and freedom as payment is to the individual rather than the household. It would reduce administrative costs. It could enable higher rates of private saving and investment. Finally, it might improve socioeconomic cohesion.

If the UBI was set high enough it could eliminate poverty

There are other arguments proposed in favour. It might encourage entrepreneurship and risk-taking by putting a safety net in place. It could encourage learning, career breaks, civic engagement or volunteerism by reducing the need for a continuous stream of employment income. Finally, it could provide a freedom not to take a bad job and encourages strategic career decisions as opposed to ones based on short-term survival considerations.

UBI attracts some support on the political left and on the political right.

Advocates on the left note that it could help alleviate poverty and eliminates the benefit trap whereby people can lose out financially under existing systems when they take-up work. In addition, they point to gains in relation to individual bargaining power and security from economic oppression.

Adherents on the right advocate for UBI because they see it as weakening government and the bureaucratic state. They also see UBI as maximising the individual's freedom to choose and helping to insulate the market from popular pressures. Finally, some on the right like UBI as a potential thin end of the wedge that could reduce support for, and open up an assault on, the welfare state.

There are also many valid arguments against introducing a UBI. Many on the left point to UBI's potential for opening up an assault against the welfare state by diverting resources from public services. The concern is that pressure would grow to privatise health, education and public transport because UBI would be extremely costly and would very likely lead to cutbacks in other areas of public spending in the absence of significant tax increases. There is also a concern that UBI might undermine trade unions and therefore push real wages downwards – effectively a subsidy to profit-making companies in low wage sectors. Finally, a UBI might exacerbate insider/outsider labour market dynamics.

Arguments against UBI from the right are mainly moralistic arguments such as the concern that lazy free riders will get something for nothing and that it will disincentivise and create a dependency culture. In contrast to the more left-wing perspective that UBI will reduce wages, some on the political right are concerned that people will refuse to take low paid or bad jobs and that this will push up wage costs – progressives of course see this as one of the best arguments for a UBI. Finally, there is the argument that UBI will be extremely costly and would push up taxes.

The most serious of the concerns is the extreme cost. For example, a UBI worth €10,000 per adult per year in the Republic of Ireland would cost over €36 billion or around half the cost of all public spending. The figure rises to €50 billion if the UBI is extended to children. A UBI would also create modest inflationary pressures in the economy. Finally, as prices differ from region to region the UBI itself would not have equivalent real value in these different regions.

No country has actually implemented a UBI although Alaska does hand out annual unconditional cheques. These cheques are a form of citizen's dividend and amount to around $1,600 annually. There have been limited experiments in Manitoba, Namibia, India, Finland and other jurisdictions. The results of these experiments have shown no evidence of any disincentive to work. On the other hand, in some cases, people seem to have responded by generating economic activity through business start-ups, or by returning to education or caring for family members. Measurable and positive impacts on mental health, skill development and even political activity have all been identified.

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Paying for a UBI would be a significant challenge given the prohibitive costs identified by Micheál Collins and others. Despite the enormous costs there might even be net losers in the bottom income decile were the UBI to squeeze out existing social transfers.

The opportunity costs are potentially high. Public services in the Republic of Ireland and in the UK are already underfunded relative to other high-income European countries and UBI costs might further crowd out resources needed for public services. The ultimate risk is that UBI would prevent the expansion of universal basic services or even lead to the gradual erosion of these services.

There could also be considerable deadweight costs. If UBI is principally seen as an anti-poverty policy, then reducing at-risk poverty and deprivation rates could be achieved at considerably less cost than through a UBI. Of course, UBI is not just an anti-poverty measure but has other potential benefits.

How could we pay for a UBI? Options include replacing part of the existing social protection budget, for example jobseeker's allowance, child benefit and the basic pension. Many existing subsidies and regressive tax expenditures could also be abolished. We could expand the tax base by introducing wealth taxes or land taxes but significant increases in workhorse taxes such as the income tax and VAT would be inevitable.

Could it happen? It would certainly be a transformative system break with wide reaching economic, fiscal, social, and labour market consequences. These types of radical policy shifts rarely occur outside of massive shocks such as a war, long economic depression, or external pressures. Roosevelt's New Deal was a response to the Great Depression while the Beveridgian welfare state was a response to the Second World War. In other cases, it was external pressures such as communism that lead some countries to establish their own welfare states. It is at least conceivable that the Covid-19 pandemic and consequent recession could qualify as such a shock.

Public policy changes have tended to be evolutionary not revolutionary. There would be losers and this would create a pressure block against the UBI. So what might induce a UBI? The political right might see UBI as a way of venting populist pressure in countries with high levels of inequality and stagnant median incomes. On the other hand, the left might see UBI as a protective bulwark against stagnating incomes, globalisation and automation.

UBI would be a transformative system break

Designing a UBI would be difficult. It would need to be designed so as not to undermine existing social protections and basic services, and to achieve this without imposing onerous costs on the State. A tension arises because a UBI needs to be large enough to have a non-trivial impact on income distribution and poverty while also being affordable. Given the enormous cost of a meaningful UBI it's worth briefly sketching some alternatives.

One option is a **partial UBI**. An example of this is the idea of a refundable tax credit. This would convert all tax credits into direct payments and would benefit low-paid, part time and casual workers. A second option is a **job guarantee scheme** with the government acting as employer of last resort. This could be used to actively promote up-skilling and would work in a countercyclical Keynesian fashion. However, there is a danger it would evolve into something coercive and would therefore need to be optional rather than compulsory. A third option is a modified UBI that operates as a universal **'minimum income'** for all adults. Such a scheme could sharply increase income amongst the poorest and cut child poverty. One concern is that unless the scheme was tapered it would generate very high marginal tax rates and could have perverse labour market impacts.

This brings us back to universal basic services. UBI risks commodification of the core welfare state. Would the current system be adequate if we had free health, education and childcare along with heavy subsidisation of other basic services? Some countries have already achieved aspects of this. The heart of the Nordic model is free or heavily subsidised childcare while Luxembourg is introducing free public transport.

Universal basic services are a realistic goal

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This long-read has briefly sketched out the arguments for and against different models of a 21st century welfare state. On the whole, the case for universal basic services appears most compelling, at least to this author, albeit not necessarily for every basic service and not necessarily provided by central government. We should consider universal basic services as critical investments in the social infrastructure needed for economies and communities to flourish. Expansion of services such as childcare would have a positive impact on potential growth by reducing barriers to labour force participation and education.

Ultimately, meeting the triple bottom line targets of growth, inequality and sustainability will require a re-imagining of the bounds of the welfare state. It is time for a serious public debate about the pros and cons of universal basic services including the provision of free education and healthcare, affordable housing, affordable child and adult care, and greater access to heavily subsidised and sufficient public transport.

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