

MEETING THE ECONOMIC AND LIVELIHOOD CRISIS:

**From a recovery basic income
to a permanent income floor**

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About Compass

Compass is the pressure group for a good society, a world that is much more equal, sustainable and democratic. We build alliances of ideas, parties and movements to help make systemic political change happen. One strategic focus of Compass¹ is on policy ideas that are rooted in real needs now but which have transformative potential. Universal Basic Income is one such issue and speaks to every element of the good society we want to create.

One of the important side-effects of the Covid-19 crisis is the way it is dramatically changing the terms of the debate about public policy and the way society should function. Within a matter of weeks our views on who are the most valuable workers has been turned upside down, there has been a spontaneous outburst of mutual support, while the serious gaps in our current social protection system have been brutally exposed. We cannot return to the way things were before the crisis. It is time to build a new social contract between government and citizens that would tackle head on the largely ignored insecurities, divisions and large-scale poverty that have long disfigured society, and which are now set to worsen.

A key element of a new contract must be a strengthening of our system of social security. The need to act has been recognized by the remarkable upsurge in interest in the idea of a basic income (sometimes called a universal basic income). In the UK, 84 per cent of the public now support a scheme, while over 110 MPs and Lords, across seven parties, have this week called for a 'Recovery basic income' (BI).

Globally, more than [500 leading public figures and academics](#) have called for an emergency basic income as a response to the current crisis. [Hong Kong, Japan and the United States have made one-off cash payments](#) to help combat the economic impact of coronavirus. Spain has become the first country to announce an ambition to roll-out a form of basic income both to help mitigate the impact of coronavirus and as a 'permanent instrument'.

A BI is a guaranteed, regular, no questions asked cash payment made to all eligible residents as of right, regardless of their income or employment status. It is not means tested and is not withdrawn as individuals enter work or raise their earnings. Depending on its level, it would replace some existing benefits, though much of the existing social security system would remain, including disability, maternity and housing benefits.

Although the idea has been gathering support in recent years, the Covid-19 crisis has heightened the case for such a scheme to tackle what is widely forecast to be an unprecedented loss of incomes and livelihoods.

A [recent report has shown](#) that in the UK, 28 per cent of adults have already experienced income loss and that adults with young children are prominent among the groups hardest hit by the fall-out from Covid-19. With [a quarter of British firms temporarily closed](#), and job losses spreading faster than the virus, these income falls are adding to the existing, deep-seated problem of income insecurity driven by decades of destabilising economic and social change. For a significant minority,

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finding decent, secure work has been a continuous struggle. The now inevitable recession is set to be much deeper than that from the 2008 financial crisis, with predictions of a rise in the number of unemployed of 2 million in the next few months alone. [One study suggests](#) that up to 5.6 million workers (including those who are not key workers and those in firms that have closed) are at risk of unemployment and dependency on an already overwhelmed benefit system. Many will see income losses of up to two-thirds.

Not up to the job

A key reason for the new momentum behind BI has been the pandemic's exposure of the multiple weaknesses of the existing system of social security, which is simply not up to the task of providing vital social protection with mass falls in household incomes.

Despite the promises of the post-war years, **Britain has never come close to creating an income floor, and even before Covid-19, millions fell through what is an imperfect, mean and patchy safety net.** Across rich nations, Britain has at best a middling social security system, one further weakened by a decade of austerity. Most benefit levels have been falling over recent decades as a ratio of typical earnings. The main adult unemployment payment – at 15 per cent of average earnings – is [worth less proportionately than at any time since 1948](#). In an economy where work is increasingly low paid and precarious there are too many holes for too many people in the 'safety net'.

Over time, the system of income support has become increasingly dependent on means testing. Although means testing has an important role to play in supporting those with special needs, today's mass testing requires complex and often intrusive and humiliating administration and imposes a cap on individual progress. It carries a very different message from universalism, not of entitlement, but of dependency. This shift to selectivity represents a fundamental turn from the original Beveridge principles of universalism and collectivism enshrined in the post-war benefit system.

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In recent times, governments have greatly tightened work-related conditionality requirements, making the benefit system increasingly punitive and intrusive. [Since 2012, 5 million sanctions](#) have been issued against benefit claimants, leaving them without income for prolonged periods. The system also fails the key test of a robust defense against poverty. [Poverty rates have recently risen to near-record levels](#), and are likely to rise sharply over the next few months, exceeding even the heightened levels of recent decades.

The present system needs radical reform. A system so heavily reliant on a combination of means testing and high conditionality enforced by sanctions is always going to leave gaps and vulnerabilities, and is not capable of dealing with regular external shocks. In the last four decades, the UK has suffered a rolling combination of upheavals - deep recessions and mass unemployment (1980-2, 1989-91, 2008-11), rapid and ongoing de-industrialisation, weak wage and income growth for many and now a global pandemic in which people are ordered not to work, may not have jobs to go back to and could see further waves of the pandemic.

Because of these embedded flaws, it is time, [as the Financial Times has argued](#), for a concerted national debate on the merits of a basic income. There are currently three different, though interrelated approaches being suggested.

- First, an **emergency scheme**, either an immediate one-off payment to all or some citizens, or a regular, short-term series of payments, to get us through the heart of the crisis. Below we argue that however desirable such an emergency scheme would be, Britain – for the moment at least - lacks the means for delivering it. The one option we do have would be a temporary increase in the level of child benefit.
- Secondly, a **recovery basic income**. This would be a temporary measure aimed at boosting demand to tackle the impending downturn, and which could be dialed up and down as needed. Unlike a permanent scheme, it would not need to be funded by taxation. To work, a recovery measure would need to be implemented, alongside other measures to boost public investment, in the next few months.
- Finally, a **permanent basic income**, which could be implemented at some point after a recovery scheme. A permanent scheme would aim to underpin a creaking social security system in a way that meets the challenges of much more volatile and uncertain times. Crucially, a permanent scheme would provide, for the first time, an income floor - a robust safety net under the existing benefit system. The need for such a floor has been all too clearly revealed by the sweeping impact of the pandemic.

Shielding the workforce

It should be a fundamental principle that if large parts of the economy are being frozen for the common good, the duty of government is to shield those losing out from the impact. When governments stand down large parts of the workforce for reasons of public safety, and may have to do so again and again, then society needs to put in place a robust scheme that allows its members, including core workers such as supermarket and care workers, to function without fear

of falling into poverty.

Ministers have recognized the urgency of finding ways of getting financial support to households but have been faced with limited options. Some form of basic income was [one of the options initially considered](#).

If a basic income scheme had been in place at the start of the coronavirus outbreak, it would have provided a simple, comprehensive and immediate mechanism for mitigating the shock waves from the speed of the virus' spread. It would also have constituted a direct instrument for kicking the economy back to life by helping to offset what is widely predicted to be a severe collapse in economic activity and surge in joblessness. As the economist, [Frances Coppola has put it](#) '*...maintaining people's incomes protects landlords, banks and utility companies from defaults.*'

One of the reasons that such an emergency measure has not been taken is that the full delivery mechanisms and institutional architecture required are not in place. A basic income scheme would require both a full list of beneficiaries and a system for paying them. The government does not have a detailed single record of all citizens. There are many separate records, including the electoral roll and income tax, child benefit, driving license and passport lists. In order to deliver a BI – emergency, recovery or permanent – these separate sources would need to be brought together to compile a comprehensive list of all those legally resident in the UK, and their addresses, contact and bank details. Without such a list, it is not possible to implement a BI.

Instead of some form of basic income, the government has introduced a number of complex emergency measures to support incomes. These have included wage subsidies and some changes to Universal Credit (UC), including a suspension of new sanctions. While these are welcome and will provide protection – if often limited – for some, there are many gaps in these schemes. UC is not designed for providing mass and immediate support. More than a million new applications for UC have been made in recent weeks putting even greater strain on a system renowned for its complexity, and already buckling under ingrained administrative and design problems. Because of the low level of benefits, households becoming dependent on benefits will see [substantial falls in income of up to two-thirds](#).

New applications are facing long delays, others are turning to debt, while millions suffering a sharp fall in incomes will miss out altogether. Those with savings of more than £16,000 are not eligible for UC and have to apply for Job Seekers Allowance at £74.35 a week. Many – from the recently self-employed, the newly unemployed, and those dependent on statutory sick pay of £96 per week to zero hour contract employees and many of those working in the gig economy – will get, at best, very limited help. New divides are opening up between those well protected by government measures and those that are not.

Despite the limited options, and the difficulty of making comprehensive cash payments, there are other steps the government could, and should, take, to strengthen both the immediate and medium-term response.

Other steps

One immediate step should be a temporary rise in the level of child benefit - currently £20.70 a week for your first child, and £13.70 for subsequent children. Child benefit is, in effect, a basic income floor for children. Such a move would therefore constitute a form of selective and limited BI.

The benefit is currently paid to 12.7 million children in 7.3m households. This move would be a straightforward and especially cost-effective way of raising the income floor for families for the duration of the crisis. It would get money to families immediately, with no waits, no forms and no new administration. Such a rise has been called for by social policy academics. A doubling of the current rates would cost around £1 billion a month. This compares with an [estimated monthly cost of £10bn of the 'job retention scheme'](#) which allows firms to recoup up to 80 per cent of the cost of employees' pay when they are furloughed.

The principle of cash payments is well established: the winter fuel allowance is paid annually as a one-off to 12 million pensioners. Of course, such emergency payments, however desirable, would not constitute a full or regular basic income. Additional income support is needed not just as protection during the current crisis, but to support households in the aftermath of the crisis and in periods of future shock, as well as providing a cushion from the inevitable disruption from ongoing automation.

Making a recovery/permanent scheme work

Given the flaws in the existing social security system, and the likelihood of a continuing rise in work insecurity from the pandemic fall-out and other forces, it is time to set up the mechanisms for a 'temporary recovery' BI, aimed at children and those of working age. A 'recovery' scheme would be one with generous benefit levels (of the order, for example, of £40 per child – replacing child benefit – and £150 per adult per week).

Such a scheme could then be modified to become a permanent scheme by scaling down the level of payments. In this sense, any temporary measures – such as a rise in child benefit rates and a recovery scheme – could be seen as a bridge towards a permanent scheme as is being proposed in Spain.

A recovery or permanent BI would need a national entitlement list. To prepare the ground, the government should begin the process of compiling a list for all adults of working age. (The list already exists for

those in receipt of child benefit and the state pension). [This would need input from multiple departments](#), detailed cross-checking and public consent.

Creating a list is perfectly possible. How long it would take would depend on the priority it is given. It would also require broad consent. There was opposition to the last Labour government's proposal for identity cards for all legal residents. However, given the exceptional circumstances of the current situation, creating a list for the purpose of supporting incomes might prove more acceptable to public opinion, provided there were clear guarantees as to its limited use.

The government could also start drawing up legislation for a basic income. The [Citizen's Income Trust has already drawn up a draft Bill](#) for what they call a 'Fair Allowance', so much of the groundwork has already been done.

Moving to a permanent income floor

A recovery scheme could pave the way for a permanent scheme, one that should be seen as the creation of a solid basic income floor (BIF) below the existing social security system. It would act as a guaranteed, no strings attached, safety net, filling many of the holes in the current benefit system. The box below shows the necessary criteria for such a scheme.

Criteria for a feasible and progressive basic income floor

It should:

- be paid to all eligible citizens, without condition
- raise the incomes of the poorest, reduce the gap between the top and bottom and reduce the level of poverty and inequality
- be high enough to make a material difference to people's lives, but also preserve work incentives, and therefore not be enough to live off on its own
- raise the level of universality in the social security system, while reducing reliance on means testing
- be affordable
- minimise losses for low-income households
- minimise the amount of disruption involved in moving to a new system of income support (by retaining much of the existing system at least initially)
- enjoy broad public support.

A BIF would be grafted onto the existing system – thereby limiting the level of disruption - and would sit as a lower tier below it. It should be seen

as a starter scheme with modest rates of payment for children and adults of working age.

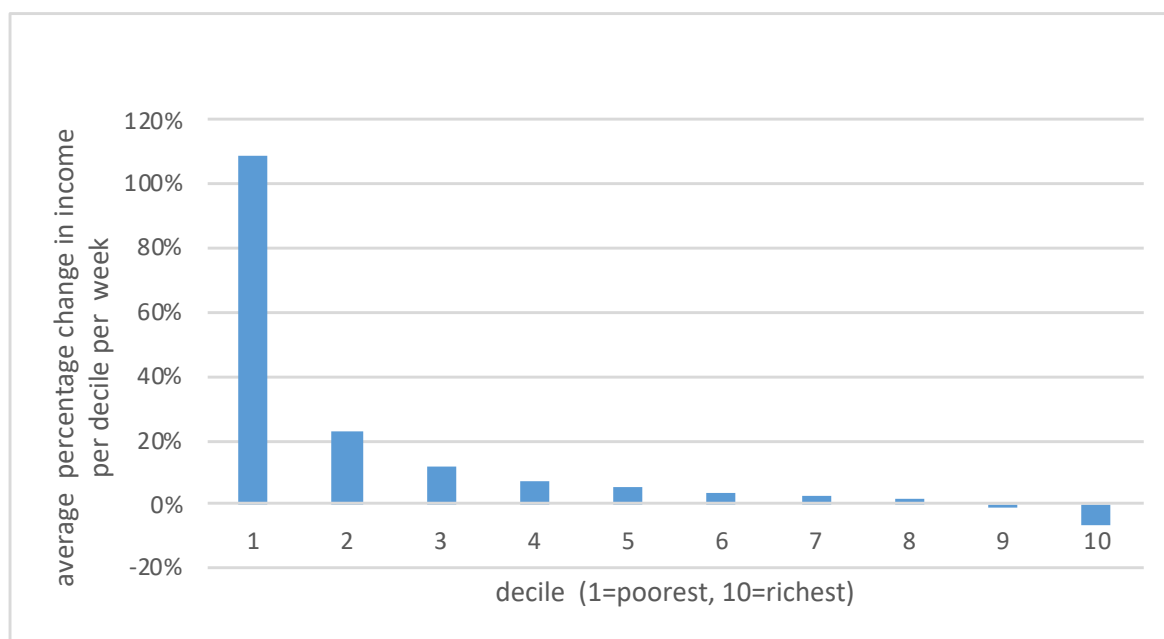
As an illustration, rates of £60 for adults under 65 and £40 for children would pay a significant, unconditional £10,400 a year for a family of four. A [study for Compass](#) has shown that such a scheme would be feasible, affordable and highly progressive.

It would:

- create for the first time an unconditional BIF
- boost the incomes of the poorest families, and cut child poverty by more than a third and working-age poverty by over a fifth.
- reduce inequality, strengthen universalism and cut means testing.
- act as a counter-cyclical devise, with rates adjusted to handle both economic and natural shocks.

The figure below shows how the gains would be concentrated amongst lower income groups. The losers, in contrast, would be concentrated amongst the top fifth.

Figure: the distibutional impact of a modest BIF



These gains would rise as the dynamic effects set in. A basic income floor would make a significant contribution to the creation of a more secure and enterprising society in an increasingly fragile world. Even a modest starter rate BIF would build a new automatic anti-poverty force into the existing system. It would provide, for the first time, a modest income for the small army of carers and volunteers, mostly women, whose contribution, largely unrecognised and unpaid, is crucial to the functioning of society. By providing all citizens with more choice over work, education, training, leisure and caring, it would also lay the foundation for greater

personal empowerment and freedom, a springboard for more stable and fulfilling lives.

This illustrative scheme would cost around £20bn net. This is less than the aggregate cuts to benefits (of nearly £40bn) since 2010, and the cost of the government's wage subsidy scheme over 3 months. It would take the UK back to a level of social security spending slightly less than in 2010, but with a much more progressive and watertight system in place. It would be possible to implement a scheme at a higher starting point (say £40 per child and £100 per adult per week) though at a higher net cost.

Meeting the gross cost of the scheme would need tax adjustments. The most important of these would be the conversion of the current personal income tax allowance into a cash payment and a small rise in existing tax rates. The personal allowance costs a huge £110bn but is of no benefit to those with low earnings and those not in paid work. If paid to adults of working age, this, on its own, would enable a weekly cash payment of over £40 at no additional cost to the Exchequer. Though other forms of funding could be used, these tax changes would ensure that the benefit of the BI payments would be clawed back from the better off, thus raising the progressive impact of the scheme.

Despite its strengths and growing support, the idea of a BI – like the national health service, child benefit and the national minimum wage before it – remains controversial, although it is [now being backed by some former critics](#). Some objectors claim that an unconditional BI would undermine the incentive to work. The disincentive to work argument has long been used to drive benefit rates down and is a red-herring. [A recent study](#) of the sanction regime concluded that, far from getting jobless people into work, it was more likely to push them into poverty or ill-health. The disincentive argument might have some force in full-blooded schemes which paid a generous weekly rate – though we should not confuse idleness with unpaid work and leisure – but would not apply to a scheme with modest payments, where, if anything, work incentives would be boosted.

A modest income floor would offer a new vision for social protection in today's more uncertain and turbulent world, a new social contract fit for the 21st century.

'Not for patching'

A more concerted effort is needed to mitigate the massive economic impact of Covid-19 on households. While a comprehensive emergency BI would not be possible at the moment, there is an unanswerable case for an emergency rise in child benefit. There is also a case for a 'recovery BI' – an effective, fast and direct way of helping the economy back on its feet – and a later, permanent BI scheme, one that would finally implement a basic income floor. If such a permanent scheme had been in place, it would have provided an automatic mechanism for delivering essential income top-ups,

while providing a resilient income support system for the future.

The crisis has sparked new interest in the idea of a basic income scheme. Underpinned by a new cross-party parliamentary working group, the idea now has political legs. It is increasingly widely accepted that the scale of the crisis demands a new system of social security - not tweaks to the old one. [As Beveridge declared in his 1942 Report](#) that laid the foundations for the post-war system of social support, the time 'is not for patching'. A modest income floor would offer a new vision for social protection in today's more uncertain and turbulent world, a new social contract fit for the 21st century. It would reinstate the principle of universalism, with a lowering of dependency on means testing. It would finally honour the long call for a basic income floor. It would put down a marker for the kind of society we would like to emerge in a post-coronavirus world.

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