UNIVERSAL BASIC INCOME
UNWORKABLE AND UNAFFORDABLE

Universal basic income is a deeply flawed idea that would require massive increases in taxation, argues **Simon Cowan**

The idea of a Universal Basic Income (UBI)—an unconditional payment from government to citizens—has been around for a long time. In recent years, the movement towards a UBI has gained momentum, with supporters on both the left and right—particularly those involved in the technology sector. But it is a deeply flawed idea and the case for introducing one is weak.

The spectre of widespread technological unemployment has become a popular justification for introducing a UBI, as the effects of globalisation and automation have been felt in the blue collar workforce whilst also emerging as a potential threat to white collar workers—especially given the rise of artificial intelligence. As dire predictions about the future of work increase, some believe the expectation that most people will be able to support themselves and a family will soon become obsolete. A UBI is proposed as the answer to this somewhat dystopian future.

This article argues that there is little evidence of technological unemployment in the labour market, or that the nature of work is undergoing a long-term disruption that would justify a UBI on the basis of technological change. It then examines the cost and drawbacks of the main theoretical UBI models: (a) a universal payment model where every citizen receives the same UBI; and (b) a welfare reallocation model where the existing system is reshaped into a universal payment. It finds that the first model would be unaffordable with the current taxation system and would involve enormous additional taxation, whilst the second model would see a substantially lower UBI payment level that would not be sufficient to live on, making it politically unviable if not impossible.

Technological unemployment

One of the main justifications for introducing a UBI is the impending changes to the labour market as a result of technology. Frey and Osborne have suggested that 47% of US jobs are at risk from advances in machine learning and robotics. However, other estimates by Arntz, Gregory and Zierahn are not nearly as pessimistic, suggesting that the number of jobs at risk is much lower at less than 10% on average. It is also important to note that the fact that some occupations are lost does not mean that the workers in those jobs will be permanently unemployed.

In the past, disruptions to the labour market of the size being anticipated by UBI campaigners—such as the industrial revolution—have actually led to gains for the economy and substantial increases in incomes and living standards; moreover, evidence suggests that workers do find other jobs. This tallies with analyses of unemployment from

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factory closures and the decline of industries like manufacturing: while some workers do drop out of the labour force, few of those who remain in the workforce looking for work are unemployed after three years.

At the moment, there is little evidence of technological unemployment in current employment data. Unemployment today is comparable with the level in the 1970s, though it has fluctuated in the interim, and there are relatively few discouraged workers who cite lack of skills or jobs disappearing in their industry as the reason they have left the labour market.

There have been very significant shifts of employment within industries; for example, manufacturing employment has declined both in real terms and percentage terms for a number of years. Unemployment has also fluctuated regionally; for example, in the last five years unemployment in the Hunter Region of New South Wales has fluctuated between 2.3% and 12.8%. Yet neither of these statistics provides substantial support to the case for a UBI.

Fluctuations within industries and regions are by their very nature temporary events; they are not permanent shifts in employment that would justify restructuring the welfare system to support them. Indeed, if the case for a UBI rested on the fact that the Hunter experienced a 12.8% unemployment rate in April 2015, the fact that unemployment had fallen to 3.7% less than 12 months later would completely undermine the argument.

Even more permanent decline in an industry or cluster of industries offers little support to those arguing for a UBI unless it is accompanied by a system-wide increase in long-term unemployment. Workers are clearly transitioning from manufacturing to service industries—a profound change to be sure—but those workers are not falling out of the workforce in large numbers. Unless the problem is system-wide, it is hard to see how a generalised intervention in the form of a UBI can be superior to targeted assistance for regions and workers in industries affected by decline.

There has been a rise in part-time employment over the past 40 years, which could be seen as evidence for technological underemployment. However, data suggests the opposite: the proportion of part-time workers seeking full-time employment fell slightly between 1996 and 2007 before rising from 2007 to 2013. While there may indeed be an increase in involuntary underemployment between 2007 and 2013, it is more likely that the Global Financial Crisis is the cause than technology. The data does not show a steady increase over time of the kind expected if technological underemployment was the cause. It is more likely that the rise in part time work was driven by an increase in female workforce participation. At a minimum, more evidence is needed to claim that there is currently a problem with technological underemployment of sufficient size to warrant a complete re-ordering of the welfare system.

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The lack of evidence for technological unemployment is not the only flaw in the case for a UBI. There is a concern that providing money to people without the obligation to seek employment or become self-sufficient may result in people choosing to work less. While UBI trials suggest that overall these effects are fairly limited, and the reduction in working hours is mostly limited to young men and mothers, these trials systemically underestimate the disincentive effects of a UBI because they do not include the effect of additional taxation needed to fund a UBI.

Once the cost of a universal style UBI is calculated, it becomes clear just how important it is to factor this in.

Modelling a UBI: Type 1: A payment to all

The most popular proposal, particularly from those on the left, is a UBI scheme in which every citizen would receive a payment from the government for the same amount. These payments would not be contingent either on any activity test or income level—unlike, say, the main unemployment benefit (Newstart) which is targeted to support workers through a short-term transitional period of

Table 1: Characteristics of a UBI where welfare recipients don't lose out

Characteristics	Option 1	Option 2	Option 3
Amount	$23,000	$10,000	$14,000
Taxable	Yes	Yes	Yes
Eligibility	Everyone 18 and over	Everyone 18 and over	Everyone 18–65
Replaces existing income support payments	Yes	Supplements paid to existing welfare recipients	All those paid to working age recipients abolished
Welfare recipients	Included in model	Included in model	'Pension' recipients excluded

Table 2: Modelling results UBI type 1

Characteristic	Option 1	Option 2	Option 3
Population in age range	18.2 million	18.2 million	14.8 million
Taxpayers in model	13.1 million	13.1 million	12.4 million
Annual UBI payment	$23,000	$10,000	$14,000
Gross cost	$418.5 billion	$119.4 billion	$174.2 billion
Less welfare savings	$98.9 billion	Nil	$28.8 billion
Less additional tax	$88.7 billion	$37.0 billion	$49.6 billion
Less adjustment for non-taxpayers		$20.3 billion	$11.5 billion
Total net cost	$230.9 billion	$102.7 billion	$107.3 billion

unemployment. In effect, UBI payments would be made 'no questions asked'.

Though the basic features of a truly universal UBI are determined by the design decision, there are important considerations that will significantly impact the political saleability of this type of UBI as well as the financial viability. While the most important consideration is obviously the level of the payment, the extent to which top-up payments to certain groups are needed also matters.

There is an existing disparity between the amount of money paid to recipients of 'pension' style payments such as the Age Pension and the Disability Support Pension compared to those received by, for example, Newstart recipients, which would be rectified by a UBI under which all recipients get the same payment. This discrepancy has largely arisen as a result of the more generous indexation and benchmarking arrangements for 'pensions': the Age Pension is benchmarked against average wages, while Newstart is indexed to inflation.

In the wake of the 2014/15 budget it is clear that attempts to limit the growth in Age Pension costs to inflation—indeed any changes to the size or growth rate of welfare payments—are politically very difficult. In fact, it is hard to see how any UBI that substantively reduces the income of welfare recipients is viable.

Therefore, to avoid a situation where welfare recipients are worse off, either the payments can be set at the level of the highest payment—that is, the Age Pension (option 1 above), or a baseline UBI can be introduced with supplements for existing welfare recipients (option 2). The third option is to limit the payment to working age recipients, while the existing welfare payments are retained for retirees and for disability pensioners.

- Modelling suggests that a UBI where everyone over the age of 18 is provided with a payment equivalent to the age pension will have a net cost of **$230.9 billion a year**, despite nearly $100 billion in year savings and $89 billion in additional taxation.

- For a UBI where everyone over the age of 18 was provided with $10,000 a year and top ups were provided for current welfare recipients, the net cost would be **$102.7 billion a year**.

- A UBI where only working-age Australians were provided with a UBI equal to the level

of Newstart would have a net cost of **$107.3 billion**. However, such a UBI would likely be combined with a universal age pension, increasing the cost to between $135 billion and $145 billion.

These three options are all unaffordable with the current taxation system and would involve enormous additional taxation. There are no easy ways to raise more than $100 billion in taxation: current proposals by Labor and the Coalition to raise additional taxation combined would cover less than 10% of the cost of a UBI. Nor is the corporate tax base anywhere near broad enough to raise this money; estimates of multinational tax avoidance are 3%–5% of the cost at best.

Moreover, if a UBI abolishes income support payments, compensating current welfare recipients for increases in broad base taxes (such as the GST and land tax) would be very difficult, either undermining the universality of the payment or causing current welfare recipients to be worse off.

The GST rate would need to rise to more than 40% to fund a UBI, costing low income households more than $10,000 a year. An alternative is land tax, yet the rate there would need to be set between $20,000 and $30,000 a year, which is particularly problematic for pensioners, who could see their whole pension/UBI eaten up in land tax payments.

If the government were to raise progressive income tax instead, they would avoid these issues but at best the marginal tax rates for median income earners would rise above 60% and those for high income earners above 80%. At these levels it is not even clear that income tax rates would actually raise extra revenue, as the rates would be on the far side of the Laffer Curve. Funding tax increases of this size would profoundly distort incentives to work and invest, and none of these disincentives are accounted for by UBA advocates.

As noted, part of the difficulty with a truly universal UBI structure is that if it replaces the welfare system it either has to be quite a large payment, which is prohibitively expensive, or welfare recipients are worse off. Option 2 aims to side-step this dilemma by adding in supplementary payments to existing welfare recipients so that the combined supplement and UBI is equivalent to their current payment. However, in many ways this model is the worst of all worlds, and mathematically it is functionally identical to maintaining the existing welfare system in its entirety and bolting a UBI on top.

Modelling a UBI Type 2: Reassigning welfare

If the options for a truly universal UBI where no-one is worse off are too unaffordable, the next obvious question is what *can* we afford?

One option to consider is whether a UBI could be funded within the existing parameters of the welfare system; that is, redistributing the existing welfare budget (together with any additional taxation revenue generated by the UBI) to the relevant population. The welfare system is not without flaws, in addition to its substantial cost. There is certainly merit in considering whether the money might be spent more efficiently and effectively—although the question of whether a UBI is a better policy than means-tested welfare in principle is of less consequence in this context than the question of whether it is a better response to the potential crisis of technological change.

Funding tax increases of this size would profoundly distort incentives to work and invest.

This leads to three different options for how a redistributive UBI might operate. The option most appealing to those who believe in a small government style UBI—such as Charles Murray at the American Enterprise Institute—is one that completely abolishes all programs and services within the Department of Social Services and redistributes those funds to all citizens over the age of 18 (option 4 overleaf). The second option is to abolish income support payments and redistribute that money, retaining all programs and services with other functions. A third option worth exploring is to limit the payment and the abolition of welfare programs to those of working age.

Not surprisingly, in each case, modelling suggests that the payment to be made is substantially below

Table 3: Characteristics of a UBI redistributing welfare

Characteristics	Option 4: all welfare	Option 5: ISP only	Option 6: working age
Taxable	Yes	Yes	Yes
Eligibility	Everyone 18 and over	Everyone 18 and over	Everyone 18–65
Replaces welfare	All welfare payments	All income support payments	All welfare for working age recipients
Welfare recipients	Included in model	Included in model	Included in model

Table 4: Modelling results UBI type 2

Characteristic	Option 4: all welfare	Option 5: ISP only	Option 6: working age
Population in age range	18.2 million	18.2 million	14.8 million
Welfare savings	$145.7 billion	$98.9 billion	$78.9 billion
Total additional tax	$33.9 billion	$21.8 billion	$22.8 billion
UBI per person	$9,873.88	$6,632.98	$6,889.93
Gross cost	$179.6 billion	$120.7 billion	$101.7 billion
Total net cost	$40,755	$69,763	$21,953

the current levels of welfare, resulting in a substantial loss of income for current welfare recipients.

Unlike the options under the universal payment to all model discussed earlier, particularly in the case of Option 4 there could be a substantial loss of income for some welfare recipients as all family benefits, child care assistance and even disability support are rolled into one payment. If the entire welfare budget was reallocated to a UBI and paid to all citizens 18 years old and over, the payment would be **just over $9,870 a year**—a substantial reduction of income for pensioners and single mothers.

Option 5 would see pensioners lose up to 70% of their support, though even recipients of the much lower Newstart payment would lose half their income. If just the budget for income support payments was redistributed to citizens 18 years and over, the payment **falls to $6,630 a year**—although this option doesn't have the potential to reduce incomes for welfare recipients by more than $20,000 a year unlike Option 4.

Option 6: If only the welfare payments that were available to working age recipients were abolished and redistributed to those between the age of 18-65, then the payment would be **$6,890 a year**.

Options 4 and 6 are less punitive on pensioners (particularly Option 6 that excludes them from the model), but achieve this by taking much larger sums of money from other welfare recipients. An unemployed couple with three children would be eligible for $48,000 under the current system; under the reallocation models above they would receive as little as $13,780 or $19,750 (in 2014 dollars). For single mothers the picture is worse. A single mother with four children who may have received as much as $52,523 in 2016, would receive just one UBI payment of less than $10,000 under these models.

A UBI model that is largely funded by the existing welfare safety net is more likely to find support from the right—certainly more so than models that involve a massive increase in taxation. However, the difficulty for those who do advocate for this style of UBI is that these models seem to be so unviable politically. None of the three options result in a welfare payment that is sufficient to live on. So, far from finding support among UBI advocates on the left, these models are likely to be opposed on the basis that they substantially reduce the income of vulnerable citizens.

At a minimum, it is clear the flaws in this UBI model significantly outweigh the flaws in the existing welfare system.

Winners and losers

The issue of who benefits from a UBI is as important as who loses through the payment of additional taxation.

Those currently receiving income support would not see an increase in their disposable income from a UBI, as there is little likelihood the payment would exceed their welfare payment. Of those who

are unemployed, only those who fail the means test for Newstart would see any income increase from a UBI.

Those working full-time and earning above the median wage are likely to be worse off as a result of the additional taxation needed to fund a UBI. So, it is unlikely anyone earning the median income or above would see any substantial increase in income from the introduction of a UBI. And for those on the average income and above, it is likely the tax increases would exceed the value of an UBI.

Those working part-time are likely to be better off as they will be eligible for a UBI, are not currently eligible for welfare but not likely to earn enough that the additional taxation outweighs the benefit. In some ways, a UBI is better understood not as a welfare policy but rather a way of transferring income from full-time employees to part-time ones.

The reduction in Effective Marginal Tax Rates (EMTRs) may assist those on low incomes who are currently facing withdrawal of welfare as well as increased taxes, but many others will face much higher marginal tax rates instead.

The biggest beneficiaries of a UBI are likely to be those outside the workforce but not currently receiving income support. Stay at home mothers, primarily those who have a partner who works full-time and earns average wages, will see an increase in disposable income. University students and young men with marginal attachment to the labour market would also see substantial gains.

A relatively small cohort who are not in the workforce due to travel, holiday or leisure activity, around half of whom are aged 55–64, would be expected to benefit from a universal style UBI, though whether this is desirable is altogether a different question. They are already voluntarily absent from the labour market, so a UBI cannot improve their participation. They must also must have some means of support independent of income from employment (such as superannuation savings); in effect this means that a UBI payment would be a windfall gain for these people.

Two main conclusions can be drawn from the above observations: the winners from a UBI policy are not the same as the beneficiaries of the current system; moreover, the cost would be the single biggest obstacle to implementation.

The most obvious point to make is that a UBI is not targeted at improving the disposable income of welfare beneficiaries. To the extent that they benefit, it is from the removal of onerous compliance obligations on welfare, and from removing the disincentive effects of high EMTRs. However, the flipside is that the removal of activity testing may also make it easier for welfare recipients to rely on passive welfare income, and high EMTRs will still be a problem, just for a different cohort.

In a sense this should not be a surprise. After all, a UBI is a universal alternative to the existing targeted welfare system: it has a broader range of beneficiaries. The difficulty is that the main arguments for supporting income redistribution have been based on the need to combat poverty—that is, those at the very bottom of the income distribution—not the need to facilitate transfers in income from those in the upper middle of the income distribution to those in the lower middle.

It is not clear that those benefiting from a UBI are the people most likely to be affected by technological unemployment.

Indeed, the groups most likely to benefit from the policy, outside of those who work part-time, are those who are excluded from the welfare system primarily because they have access to other support (for example, a spouse working full-time or parents who are supporting the person while at university) or are too well-off to be eligible under the current system.

Overall, it is not clear that those benefiting from a UBI are the right targets for additional income support, nor is it clear that they are the people most likely to be affected by technological unemployment. If a UBI can be justified as providing a benefit to these groups, it is on a different basis to the one that is being pitched now.

What is perhaps even more problematic for those in favour of a UBI, is that it is not enough to demonstrate that these groups have an unmet need that should be met by taxpayers, contrary to the

principles of the current system, but also that a UBI is the best method of assisting those groups. There is simply no evidence that this is the case. If the basis for wanting to provide assistance to a group or groups is that they face a specific disadvantage, that disadvantage is more likely to be remedied by a payment made available to the disadvantaged group alone, not to everyone.

For example, if your primary motivation was to provide additional support to stay-at-home mothers, why would a payment available to single 25-year-old men be better than one directed at stay-at-home mothers? The broader the cohort, the more expensive the fiscal cost of the program and the less likely the payment will be generous.

Cost and impossibility of a UBI

The other big lesson to be learned in relation to a UBI is that all the objectives of a UBI cannot be met in practice. Anyone who promises that a UBI will be a payment for everyone, sufficient to live on, and will be a viable cost, is either being deliberately misleading or hasn't done the sums. If a payment is sufficient to live on (and won't leave current welfare recipients worse off) it cannot be both affordable and universal. At the moment, welfare systems across the Western world deal with this by putting significant limits on accessibility (that is, they are not universal) and many also have quite limited payments.

Politically, as noted earlier, there is practically no constituency for a redistributive UBI of the sort examined in Options 4, 5 and 6 above. The biggest problem is that the resulting payment would not be sufficient for an unemployed person to live on once they had exhausted their savings; it would leave people in dire poverty. However attractive the idea of the abolition of the welfare state is to certain ideological groups, there is simply no realistic prospect that voters will approve a system where large numbers of people will be destitute. Nor does this deal with any potential transition costs from the current system.

One consideration stemming from that conclusion is that many of those on the right who support a UBI on the basis that it will be largely or wholly funded by the reallocation of existing welfare should reconsider that support. There are no viable UBI options that do not involve much bigger government.

A consequence of the political impossibility of abolition of the welfare state without the retention of a viable safety net is that there is a limit to how low the transfer could be—it has to be set above the level of absolute poverty at a minimum. Once it is set at this minimum level there is no way it can be universal without requiring tens of billions of dollars of additional taxation. It cannot be set at a higher level where no-one on welfare is worse off without requiring hundreds of billions of dollars of additional taxation.

The savings that would accrue from the abolition of the monitoring system and bureaucracy for the welfare state are nowhere near sufficient to bridge this gap. The 2015-16 Department of Social Security Portfolio Budget Statement accounts for $6.25 billion in Departmental Appropriations, yet none of the relevant bodies or departments would be fully abolished under Options 1, 2 or 3, meaning the savings available would almost certainly be less than $5 billion a year, maybe as low as half that amount. The funding for a UBI can only come from massive tax increases. But if marginal tax rates climb over 50%, and potentially much higher, the disincentives to work and invest may threaten the viability of the entire system.

Conclusion

No Western country has been convinced of the merits of replacing its welfare system with a UBI, and no proposal to do so exists. Indeed, without the impetus of impending and widespread technological unemployment—for which there is no evidence—it is doubtful there would be any real momentum behind the push for a UBI at all. UBI is not a normal welfare reform proposal. It would require an enormous reorganisation of the tax and welfare system.

Even if it could be demonstrated that technological unemployment was a major problem, it would still need to be shown that a UBI is the most appropriate solution—something that is far from certain. UBI is a deeply flawed idea, with theoretical arguments that do not stand up to scrutiny and practical issues that have not been accounted for.