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UBI – Universal Basic Income is an Unbelievably Bad Idea

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Executive Summary

- The concept of a Universal Basic Income (UBI) — an amount paid by the government to its citizens with few restrictions — is a deeply flawed idea and the case for introducing one is weak.

Technological unemployment

- One of the main justifications heard for introducing a UBI is the impending wave of changes to the labour market as a result of technology. Estimates of the potential risk vary wildly: some argue that 47% of US jobs are at risk while others say the risk is less than 10% on average.

- However, the workers in those jobs will not all be permanently unemployed. Evidence shows very few retrenchees in the jobs market are still unemployed after three years.

- There is little evidence of technological unemployment in current employment data.

UBI and incentives

- There is a concern that providing money to people without obligation may result in people choosing to work less.

- UBI trials systemically underestimate the disincentive effects of a UBI because they do not include the effect of additional taxation needed to fund a UBI.

- A UBI may reduce effective marginal tax rates for some, countering the disincentive effect of 'free money, but if marginal tax rates climb over 50%, the disincentives may threaten the viability of the system.

UBI where welfare recipients are not worse off

- **Option 1**: 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

- **Option 2**: a UBI where everyone over the age of 18 was provided with $10,000 a year and current welfare recipients were given a top-up payment would have a **net cost of $102.7 billion a year**.

- **Option 3**: a UBI where working age Australians were provided with a UBI equal to the level of Newstart, and the Age Pension was made universal would have a **net cost of between $135 billion and $145 billion a year.**

Taxation needed to fund a UBI

- The combined value of all current proposals to raise additional revenue by both Labor and the Coalition would cover less than 10% of the cost of a UBI.

- There are no easy ways to raise the needed $100+ billion in taxation. The corporate tax base is nowhere near broad enough to raise this money; estimates of multinational tax avoidance are 3%-5% of the cost at best.

- Under the current GST structure, assuming no behavioural changes, the rate would need to rise to more than 40% to fund a UBI. This increase would cost low income households more than $10,000 a year.

- An equivalent land tax 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.

- Progressive income tax increases avoid these issues but could push marginal tax rates for median income earners above 60% and those for high income earners above 80%, assuming no behavioural changes.

A UBI redistributing the current welfare budget

- A system where the current welfare budget is redistributed to fund a UBI would see a substantially lower payment level.

- **Option 4**: if the entire welfare budget was reallocated to a UBI, paid to all citizens 18 years and over, the payment would be **just over $9,870 a year**

- **Option 5:** if just the budget for income support payments was redistributed to citizens 18 years and over, the payment falls **to $6,630 a year**

- **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.**

Technological unemployment and the movement towards a Universal Basic Income

No western country has been convinced of the merits of replacing its welfare system with a UBI, and no proposal to do so exists. However, UBI has been driven to the front of the policy debate today by the connection with Silicon Valley, the rise of automation and artificial intelligence and associated fears around widespread unemployment.

Has technology driven people from the workforce?

Current labour market statistics make it clear: there is little evidence of technological unemployment in the labour market at all. In fact, if you look at the unemployment rate over the past 40 years, while there have been periods of significant fluctuation there is no evidence of generally rising unemployment.

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. Yet fluctuations within industries and regions are by their very nature temporary events; they are not permanent shifts in employment matters that would support restructuring the welfare system to support them.

How big a risk is technology to the labour market?

The fact that there is not yet a problem does not automatically demonstrate that there will not be a problem in the future. Of course, predictions of the future are notoriously unreliable, especially if the prognosticator is convinced that 'this time is different'. However, several attempts have been made to estimate the scope of the challenges the labour market may face as a result of automation.

One of the more dire is from Frey and Osborne, who suggest that around 47% of total US employment is at high risk from advances in machine learning and mobile robotics, potentially as soon as a decade or two.

However, Arntz, Gregory and Zierahn estimate on average that only 9% of jobs are automatable across 21 OECD countries. Perhaps even more importantly, they argue that estimates of jobs at risk should not be equated with actual or expected job losses. They conclude that, although low qualified workers may bear the brunt of adjustment costs, "automation and digitalisation are unlikely to destroy large numbers of jobs."

There is no evidence of the nature of work undergoing a long-term disruption that would justify a UBI on the basis of technological change. However, even if it could be demonstrated that technological underemployment was a major problem, it still would need to be shown that a UBI is the most appropriate solution — something that is far from certain.

Modelling a UBI: Type 1 — A payment to all

The most popular proposal, particularly from those on the left, is a UBI scheme where welfare recipients are not to be worse off. As a result either the payments can be set at the level of the highest payment (the Age Pension) or a baseline UBI can be introduced with supplements for existing welfare recipients. 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.

Features

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

Modelling results

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

Features

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

Problem - cost of additional taxation

The biggest problem with all three options is that they are prohibitively expensive. All three options explored here require additional revenue far beyond the scope of commonly suggested options for tax increases. Labor's proposed changes to capital gains tax and negative gearing in the 2016 election were expected to generate savings of $32.1 billion over 10 years. Recent changes by the Coalition government to make superannuation 'fairer' were estimated to raise less than $3 billion a year. By contrast, the additional funding needed to implement the UBI options here ranges between $1.03 trillion and $2.3 trillion over 10 years, suggesting that changes to capital gains tax and negative gearing or superannuation tax concessions would each fund between 1.4% and 3% of a UBI.

Modelling a UBI: Type 2 — reassigning existing welfare

Given a persistent budget deficit equal to several percent of GDP, one option to consider is whether a UBI could be funded within the existing parameters of the welfare system: i.e. redistributing the existing welfare budget (together with any additional taxation revenue generated by the UBI) to the relevant population.

Modelling results

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
Gross cost	$179.6 billion	$120.7 billion	$101.7 billion
UBI per person	$9,873.88	$6,632.98	$6,889.93

Problems

Unlike in the models in the section above, 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.

Option 5 would see pensioners lose up to 70% of their support, and even recipients of the much lower Newstart payment would lose half their income.

Options 4 and 6 take 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 like this seems to be unviable politically. Moreover, 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.

Author

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