7. Pathways to a Basic Income System

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Introduction

The purpose of this paper is to examine possible pathways to implement a basic income system and to explore the option most suited to the Irish context. Issues concerning affordability, feasibility and the case for a basic income are addressed elsewhere in this publication[28].

Section 1: Pathways towards a basic income system

The implementation of a basic income system and the pathways required to do so have been a topic of consideration for three decades. The fundamental difference between the pathways examined in this paper is one of timing. Some advocates propose an approach that would see the immediate implementation of a full basic income system once the required elements are in place. Others propose an approach that would take place over a particular time period. This time period can vary from three years (Clark and Healy, 1997) to twenty years (Fitzpatrick, 1999) to fifty years (Torry, 2015) depending on the pathway proposed.

This paper will examine five different pathways to implement a basic income system:

1. All-at-once approach
2. By groups approach
3. One step at a time approach
4. Partial basic income approach
5. Gradual approach

[28] See in particular chapters 2, 3 and 9 – Torry, Painter, Murphy and Ward.

All-at-once approach

A number of proposals regarding the 'all-at-once' implementation of a basic income system exist. In 1997 a study was commissioned to examine pathways to a Basic Income in Ireland (Clark and Healy). Among the options considered by the study is an 'all-at-once' approach. Clark and Healy described this approach as involving the complete removal of the current system and the implementation of a full Basic Income at the same time. It would see the complete elimination of the current income tax and social welfare system, to be replaced by a basic income system. On the last day of the tax year, taxes and benefits would be collected and paid through the existing system. Then during the first week of the new tax year, taxes would be collected and Basic Income payments would be made according to the basic income system.

The advantages of this approach are that it quickly eliminates the present tax and social welfare system and it quickly realises the benefits of basic income. It would prevent confusion arising from parts of the social welfare system being universal and parts still being means tested. The disadvantage is that the change required might be too drastic for some who would need to become gradually accustomed to receiving basic income payments. The 'all-at-once' option would require significant planning and system testing to ensure the transition to a basic income system does not cause disruption and does not have unintended consequences. A clear public education and information strategy over the months leading up to the change to a full basic income system would be necessary.

Torry (2014, 2015) has also considered the 'all-at-once' approach in the UK context. Torry's approach would see a small citizen's income[29] for every citizen of the UK, regardless of age. The proposed citizen's income would be comprised of a citizen's pension for people aged 65 and over, a citizen's income for adults of working age (which would replace the personal tax allowance), a young adults citizen's income for those aged 16-24 and a child's citizen's income. He notes that a scheme that simply adjusts tax rates and thresholds and recalculated means-tested benefits would require less legislative and regulatory work (Torry, 2016).

[29] A Citizen's Income as an unconditional, nonwithdrawable income for every individual as a right of citizenship. It is sometimes called a Basic Income or a Universal Basic Income http://citizensincome.org/citizens-income/what-is-it/

Stevens and Simpson (2016) make a similar proposal in which they outline how a universal guaranteed basic income can be delivered to all age groups in Canada. A basic income can be provided to adults aged 18 and over via a refundable tax credit whilst other age groups will be covered by already existing guaranteed income schemes for seniors, child benefit programmes and child tax benefit. They propose that the basic income replace certain existing non-refundable tax credit programmes.

The 'by groups' approach[30]

The 'by groups' approach would involve the introduction of Basic Income payments to certain groups in society, one after the other. There are several ways of implementing a 'by groups' basic income system. A 'by groups' basic income system could be progressed over a four year period by introducing a basic income for different groups in each of the four years. Clark and Healy (1997) suggested that in year one, a partial basic income for adults aged 21-64 be introduced. In year two, most of the children's basic income would be introduced. In year three, a full basic income payment for older people would be introduced. In year four, the outstanding parts of the children's and adult's payments would be introduced. In order to implement a basic income system of this design in Ireland today the working age and older person's basic income payment would have to be adjusted according to the new retirement ages and a fifth element would be required for young people aged 18 to 21.

The advantage of the 'by group' approach is that the level of change is not as dramatic as in the 'all-at-once' approach. The disadvantages of this approach are that there are winners and losers, as some groups go first and other groups have to wait a number of years. This could cause resentment between lifecycle groups as some go without a basic income but face increased tax rates for a number of years (Clark and Healy, 1997).

Torry is generally in favour of the 'all-at-once' approach. However he notes that if it were advisable to make the transition to a basic income more slowly, one option would be to introduce a basic income one group at a time[31]. He takes a slightly different angle as he notes that introduction by group might

30 Also known as the demographic approach
31 See Ch 2 for further expansion on this issue

make a basic income more politically feasible. According to Torry the 'by group' approach could help to shift public opinion, especially if the pathway begins with those groups thought to be more 'deserving' such as children, and elderly people followed by other groups in the lifecycle. He notes that a behavioural feasibility test successfully passed after implementation for one particular group could generate the psychological feasibility for the next[32]. One of the disadvantages of this approach is that those groups that might benefit from a basic income the most could be among the last to receive it as they are not considered 'deserving' enough from a political perspective. Painter and Thoung (2015) also considered the demographic approach but found that one of the groups that could lose out in such an approach in the UK context is low income lone parents. They propose a transitionary measure for this particular group in order to address this problem.

'One step at a time' method

Torry has also explored a 'one step at a time' method to implement a basic income system. This method has the advantage of allowing space to test new approaches without causing too much disruption for household budgets or tax or benefit administration systems. The disadvantage is the underlying issue of a benefits system not fit for purpose for today's society is not resolved (Torry, 2015 p.8). This approach is designed as a first step towards a full basic income system. Torry's proposal is concerned with children and young people. He proposes that child benefit be turned into the child's citizen's income and that a young adult's citizen's income for young people aged 16-18 be established. The payment for young adults is then retained through adulthood. At the same time a citizen's income for older people would be introduced by turning the Single Tier Pension into a universal citizen's pension. Torry estimates that this 'one step at a time' approach could deliver a full citizen's income system in fifty years depending on the method adopted[33]. The main advantage of this approach is the gradual nature of the change. However the disadvantage of this approach is that not everyone benefits from it.

32 See chapter 2 of this publication

33 The introduction of an unconditional pre-retirement payment for everyone over 55 would shorten the timeframe by thirteen years.

Fitzpatrick (1999) also proposed a 'one step at a time' method which would see a full basic income system being implemented over a twenty year period. His reasoning for this approach is that it would make a full basic income system more politically acceptable. He argues that a long-term process of five year increments would allow the time to deliver necessary change in tax and benefit systems and embed a basic income system into social policy. He identified five stages of implementation (i) revised social insurance (ii) social insurance plus transitional basic income (iii) participation income (iv) partial basic income, and, (iv) full basic income. His argument is that the introduction of a full basic income 'all-at-once' would most likely be unacceptable in political discourse. A long-term approach would allow time for a basic income to garner political and social support and for voters to be persuaded of the value of basic income.

Partial basic income

A variation on the 'one step at a time' approach is the partial basic income pathway. This option involves giving a (usually modest) partial basic income to some or all citizens over a period of time which would gradually expand and increase over time until a full basic income system is developed. Groot (1999) argues that this is the most appropriate method to transition to an unconditional basic income in the long term as the 'all-at-once' approach would be too disruptive and seen as politically unacceptable. The disadvantage of this method is that the welfare system is a mix of conditional and unconditional regimes for an extended period of time, with the challenge of how a partial basic income would interact with conditional welfare benefits and payments. Skidelsky (2015) proposes giving all citizens an unconditional tax credit as a partial basic income which could be built up gradually as rewards from work fall. In a 2016 study considering possible universal basic income simulations, Reed and Lansley come to the conclusion that a modified partial basic income, paid at a lower rate and retaining existing means-tested benefits would be viable, although it would keep some of the complexities of the existing benefits system. They propose that such a partial basic income could be introduced either by demographic group or by introducing modest, partial basic income payments which would be increased over time. Consideration of a basic income for people of working age is discussed in chapter 8 of this publication.

Gradual approach

The gradual approach to implementing a basic income system involves dismantling the current system while simultaneously building up the basic income system. This approach would establish the basic income system separately from the current tax and welfare systems. It would see the gradual phasing in of the basic income system while the current tax and welfare systems are phased out. This would be done over whatever specific time period is chosen. The advantage of the gradual approach is that the challenge of reforming the current complex tax and welfare systems in order to move to a basic income system is overcome. The basic income system is established separately from the current tax and social welfare system. The gradual approach is equitable in that it distributes the costs and gains of the basic income system equally. It also avoids the disruption of the 'all-at-once' approach and the possible resentment between lifecycle groups of the 'by group' approach. Clark and Healy (1997) proposed implementing the gradual approach over a three year period. The basic income system would be introduced by one third in year one, two thirds in year two and full implementation in year three. The reverse happens for the tax and welfare systems which are reduced by one third in year one, by two thirds in year two and is eliminated in year three. Research (Clark, 1999) establishing the financing of implementing a three year gradual approach[34] (including a detailed payment schedule) for Ireland was commissioned by the Irish Government for the Green Paper on Basic Income published in 2002.

Painter and Thoung (2015) proposed that a small basic income be implemented gradually following the model used by the UK government for the Single Tier Pension introduced in April 2016. They proposed that the Single Tier Pension process could be used to establish a minimum income guarantee for all qualifying individuals set at the level of their proposed basic income. The authors suggest that this could be gradually introduced over a five to ten year timeframe during which time the basic income replaces personal allowances, benefits and credits. The authors note that the advantage of this method is that it allows on-going evaluation as the transition takes place. Torry also considers a gradual approach as a method of ensuring a smooth implementation of a basic income system. His proposal would be to introduce a smaller basic income (compared with his

[34] **http://www.taoiseach.gov.ie/upload/report.htm**

other proposals) for all and gradually increase it whilst simultaneously reducing benefits and in work credits. The advantage of this is that it would allow for gradual adjustment by the labour market, and ongoing evaluation of the transition to a basic income system.

Section 2: A proposal for a basic income system in Ireland

This section will outline a proposed structure to implement a basic income system in Ireland. This proposal could be implemented over a five year period i.e. one Dáil term (a government term of office). A gradual approach over five years would be most appropriate in the Irish context given the complexity of the Irish tax system and the social welfare system and the reforms required to implement a basic income system. A five year timeframe would also allow sufficient time to ensure that the basic income system is developed appropriately and that any anomalies within the current tax and social welfare systems and their interaction are addressed.

Delivering a structure to support a basic income system

In order to deliver a structure that will support a basic income system in Ireland, two key reforms are required; one reform in the tax system and one reform in the social welfare system. By implementing these reforms the current tax and social welfare systems in Ireland would contain the necessary elements to provide a structure for a basic income system.

The two proposed reforms required to adjust the current tax and social welfare systems to support a basic income structure are:

(i) Make the State Contributory Pension a universal payment for all adults aged 66 years and above.

(ii) Make tax credits refundable*.

* details of these reforms were proposed by Healy/Reynolds in their paper at the Bien Congress in Barcelona (2004)

Details of both reforms are outlined below. These reforms could be implemented consecutively, and once implemented Ireland's tax and social welfare system would be structured in a way that would support the gradual introduction of a basic income system.

Transforming the State Contributory Pension into a Universal Pension

The social welfare system currently provides three 'lifecycle' payments; a universal child benefit, an unemployment benefit for people of working age who are not in employment[35] and a State Contributory Pension. The State Contributory Pension is not universal and can be regarded as taxable income. These are not the only payments within the social welfare system, (there are other supplementary payments), however these are the three payments that cover the life cycle and thus are of interest in terms of designing a basic income system.

- The State Contributory Pension is paid only to people from the age of 66 who have sufficient Irish social insurance contributions. The conditions and thresholds are very complex and there are many people who do not qualify for the State Contributory Pension under this provision.

- If a person does not qualify for a State Contributory Pension they may be entitled to the State Pension (non-contributory) which is a means tested payment. However not everyone is entitled to this payment.

- Due to historical reasons there are approximately 46,000 women who do not have an entitlement to a State Pension.

A universal pension (as proposed by *Social Justice Ireland*) is a universal flat-rate entitlement paid as a matter of right to all residents over a defined qualifying age regardless of previous contributions or income. The final amount of the Universal Pension would depend on years of residency in Ireland. The Universal Pension would replace the State Pension (Contributory) and the State Pension (Non-Contributory) and act as Ireland's first tier pension. The objective of the universal pension is to provide an adequate and sustainable post-retirement income for all citizens and residents of Ireland. Ireland could have a universal pension for every person aged over

[35] The weekly jobseekers allowance rate for adults aged 25-65 is €193, the rate for jobseekers aged 18-24 is €102.70, and the rate for jobseekers aged 24-25 is €147.80.

66 by simply standard rating the current tax-break for private pensions. This reform could be implemented in one year. Government would set a specific date to switch all those currently receiving a payment from the state over 66 to the Universal Pension. Prior to this date the necessary administrative changes should be implemented and the Budget should give effect to the tax and spending changes required[36] (Social Justice Ireland, 2013).

By making the State Contributory Pension a Universal Pension, all adults aged 66 and over would be guaranteed this minimum level of income. It would also address one of the technical challenges of implementing a basic income system. Torry (2013) also argues that the proposed Single Tier State Pension in the UK be turned into a Citizen's Pension for everyone which is not means tested as a step on the road towards a basic income system.

Introducing refundable tax credits

Ireland introduced a tax credit system in 2001. In practice this means that a person's tax is calculated from the first cent they earn, the tax credit is subtracted from this and the balance is the actual tax bill that they pay (gross tax, less tax credits = tax payable). The value of tax credits is that people at all income levels could benefit to the same extent from tax credits. One problem persists however. One group does not benefit as much as others from the tax credit system. This group is made up of low income employees who do not have a high enough tax bill to benefit from the full value of the tax credit. To rectify this problem, a person could receive a payment from the government equivalent to the portion of the tax credit that they have lost – a refund from the state. This is known as a refundable tax credit system or a negative income tax system. If tax credits were refundable then all those employed would be entitled to this minimum level of income.

A summary of the main findings of *Social Justice Ireland's* refundable tax credit proposal[37] are outlined below. The study found that making tax credits refundable:

- Would address the problem identified already in a straightforward and cost-effective manner.

36 Full details of this proposal are outlined in *A Universal Pension for Ireland* available at https://www.socialjustice.ie/content/publications/universal-pension-ireland-2013

37 Full details of this proposal are available at https://www.socialjustice.ie/content/publications/building-fairer-tax-system-working-poor-and-cost-refundable-tax-credits-2010

- Would involve no administrative cost to the employer.

- Would incentivise employment over welfare as it would widen the gap between pay and welfare rates.

- Would be more appropriate for a 21st century system of tax and welfare.

- Almost 113,300 low income individuals would receive a refund and would see their disposable income increase as a result of the proposal.

- Almost 40 per cent of refunds flow to people in low-income working poor households who live below the poverty line.

The major advantage of making tax credits refundable lies in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). The benefits from introducing this policy would go directly to those on the lowest incomes.

A basic income system for Ireland

In practice, if the State Contributory Pension was turned into a universal pension and if tax credits were made refundable then Ireland would have a structure that would support the implementation of a basic income system. The tax and social welfare systems would contain a universal entitlement for all stages of the lifecycle and every person in society. Older people would be entitled to the universal pension, children would be entitled to Child Benefit, and adults of working age would be entitled to a refundable tax credit or a social welfare payment. The level of these payments, of course, would vary. However developing a structure that would support a universal entitlement for all stages of the life cycle through the tax and social welfare systems would allow for the transition to a basic income system.

A basic income system in Ireland could be introduced over five years (i.e. a Government term of office) if it were implemented as follows:

Year 1:
- Introduce a universal pension for all citizens aged 66 as over, making that necessary administration, taxation and expenditure changes.

- Begin work on establishing the basic income system separately from the present tax and welfare systems.

- Ensure that any anomalies in the existing tax and welfare systems that might generate unintended consequences in the basic income system are addressed and rectified in a timely manner.

- Develop a comprehensive communications strategy and ensure all the necessary administrative adjustments and upgrades are made.

Year 2:
- Introduce Refundable Tax Credits for all employees so that every employee is entitled to this minimum level of income.

- Continue work on establishing the basic income system separately from the current tax and welfare systems to ensure a smooth transition.

- Continue to upgrade the administrative systems and the roll out of the comprehensive communications strategy.

Year 3:
- Introduce one third of the basic income system.

- Remove one third of the tax and social welfare systems.

- Maintain the remaining two thirds of the tax and social welfare systems.

Year 4:
- Introduce two thirds of the basic income system.

- Remove two thirds of the tax and social welfare systems.

- Maintain the final one third of tax and welfare systems.

Year 5:
- Introduce the remaining one third of the basic income system to deliver a full basic income system.

- Eliminate the remaining one third of the old tax and social welfare systems.

The value of a gradual five year approach as proposed is that the necessary changes to the tax and social welfare systems are made so that they contain the necessary elements for a basic income system. This would deliver a smooth transition to a basic income system. In year one and year two people aged 66 and over and adults in employment gain the benefits of these reforms, and in years three to five everyone gets the initial benefits of the basic income payments in a gradual manner.

Conclusion

This paper describes a number of pathways towards delivering a basic income system. These are not the only pathways available, however in the opinion of the author they are the pathways most relevant to the tax and social welfare systems which exist in Ireland at present. This paper also makes a proposal on how to structure a pathway for the introduction of a basic income system in Ireland over a single Government term of office (i.e. a five year period). More research into pathways for a basic income system is required as further financing and feasibility proposals are developed. The case must be made not only for the affordability and feasibility of a basic income, but also that the transition to a basic income system can be smooth, gradual and operable. This means arguing the case for the structure of a basic income system and demonstrating how this can be developed by reforming and adjusting the existing tax and social welfare systems and making the necessary changes to develop a basic income system.

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