Basic Income

A Green Paper

September 2002

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Chapter 1

Introduction

1.1 ***An Action Programme for the Millennium*** [1] committed the Government to publishing a Green Paper on Basic Income.

1.2 **Partnership 2000 for Inclusion, Employment and Competitiveness**[2] provides that:

> *A further independent appraisal of the concept of, and full implications of introducing a Basic Income payment for all citizens will be undertaken, taking into account the work of the ESRI, CORI (Conference of Religious in Ireland), and the Expert Working Group on the Integration of Tax and Social Welfare and international research.*

1.3 In line with this commitment, a **Steering Group on Basic Income** was established to examine the issues involved. The Group was comprised of representatives of all four Pillars of social partnership as well as the relevant Government Departments including the Departments of Finance; Enterprise, Trade and Employment; and Social Community and Family Affairs. It was not the role of the Group to reach a conclusion or make recommendations about a specific model of Basic Income. Its role was to oversee a commissioned series of studies on Basic Income. The report of the Working Group was completed and made available to the social partners in 2001.

1.4 The specific Basic Income proposal studied by the Steering Group would involve replacing the existing social welfare and income tax systems with a universal payment to all adults (a lesser amount for children) a flat rate of income tax and a social solidarity fund to compensate low income people who would lose out from the abolition of existing social welfare payments. The relevant nominal tax rates in place during the study were 24%/46%, reduced by tax allowances (since replaced by credits), plus PRSI/levies of some 6.5% (giving a total marginal tax rate for some taxpayers at that time of 52.5%). These – in the model studied – would have been replaced with a universal payment of some €95 per week for adults (less for children), the Social Solidarity Fund and a flat rate of approx. 48% tax on all income (i.e. no tax allowances/credits). Current tax rates are 20% and 42%, PRSI/levies are 6% and the equivalent rate of Basic Income expressed in 2002 rates would be €118.80 per week. As the Steering Group based its analysis on information about the tax base in 1999, it also concluded at the time that further economic growth since 1999 would have allowed the tax rate of 48% that emerged from its work to be reduced still further. As we shall see later in this paper, the actual tax rate that would be required in present circumstances is uncertain, essentially because of inherent uncertainty as to the *dynamic* impact introduction of a Basic

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[1] page 5 (An Inclusive Society)
[2] 4.35

Income system would have on the economy.

1.5 The Basic Income concept and the question of its application to Ireland have been the subject of much debate and consideration in recent years. Debate has generally focused on the potential advantages and disadvantages and also the very feasibility of such a system, given the high income tax rates that would be required to fund it and its possible behavioural implications for the labour market, tax compliance, migration and national competitiveness. The difference between **nominal** tax rates, marginal tax rates and **effective** tax rates is an important element in discussion of the possible impact of a Basic Income system – this is discussed in chapter 3.

1.6 **Nominal rates** of income tax are the actual headline rates at which tax is levied on income, but without taking account of credits or allowances that are available to the individual taxpayer and without taking into account additional payments (i.e. PRSI) or levies. Currently, there are two nominal rates: the 20% standard rate and the 42% higher rate. The **marginal rate** of income tax is the rate of tax paid on the last – or the next - euro of additional income. At any particular income level, we can calculate how much of any additional income will be taken in taxes. We can then say that an individual earner is **facing** a specific percentage marginal tax rate. The actual rate is seen as very important in influencing the incentive to work. The **effective** or **average** rate of income tax takes account of credits or allowances and represents the actual tax payable, usually including levies and PRSI (up to 6%), as a proportion of total gross income. Furthermore, in making comparisons between the current system and a Basic Income model, account must also be taken of direct payments to the taxpayer, such as Child Benefit and Family Income Supplement (FIS).

1.7 The objectives of this Green Paper are to:

- facilitate and encourage further debate and discussion on the relevant issues;
- highlight and examine the implications of the introduction of a Basic Income system in Ireland; and
- discuss a possible framework for the development of a Basic Income system in Ireland and alternative policy options to meet the underlying objectives of social inclusion, income adequacy, simplicity and economic efficiency.

1.8 The intention is to bring the results of the examination of the Basic Income concept and the potential impact of its possible application to Ireland undertaken under **Partnership 2000** to the attention of the wider community and to encourage debate on the practical and policy issues involved. A Green Paper is, of course, a discussion document, rather than a statement of Government policy or intent and the Government sees it as a contribution to and further stage in an ongoing debate, rather than an end point in itself. The debate as it continues should include issues of design and implementation of tax and welfare policy to increase the prospects of achieving the positive benefits of Basic Income, while seeking to minimise those effects that might be regarded as less desirable. Publication of this Green Paper honours the commitment given to the Social Partners and will inform and widen future public consideration of the concept by making the results of the Steering Group's work and analysis on the Basic Income concept accessible to a wider audience.

1.9 The publication of the Green Paper - and the debate it is intended to facilitate – take place also against the backdrop of a clear Government policy determination to tackle poverty and disadvantage, generating the resources to do so by maintaining Ireland's competitive position in the world economy. The shared aims of Government and the social partners (as expressed in the **Programme for Prosperity and Fairness**) are to:

- Keep our economy competitive in a rapidly changing world;
- provide a strong basis for further economic prosperity;
- improve the quality of life and living standards for all; and
- bring about a fairer and more inclusive Ireland.

1.10 Between 1997 and 2001, real GDP in Ireland rose at an average rate of 9.7% per year compared with an average of 2.6% in the EU over the same period. This strong growth has facilitated a further improvement in Irish income levels relative to the EU average. In additional deep income tax reforms together with relatively high nominal wage increases and substantial real increases in social welfare payment rates have led to a significant improvement in real disposable income levels over recent years. Unemployment – traditionally the weakest point of the Irish economy – declined rapidly from 10.3 in 1997 to some 4%, with long-term unemployment falling from 5.6% to 1.2% over the period.

1.11 Within the context of this strong economic growth and increase in real disposable income levels seen in recent years, the National Anti-Poverty Strategy has provided the policy focus within which substantial progress has been made in reducing consistent poverty. The recent review[3] of the National Anti-Poverty Strategy confirms the considerable progress that was made in its implementation – exceeding expectations in some areas – since 1997, but acknowledges that much remains to be achieved. The Government remains committed to tackling poverty and exclusion as a priority and has adopted a revised set of ambitious targets for the NAPS to that end across a range of policy areas and vulnerable groups. In this regard, it is clear that the single most effective way of ensuring that the NAPS objectives can be achieved in the years ahead is through continuing sound economic and fiscal measures and maintenance of high employment. It is the economic and fiscal policies of recent years that have made possible sustained and strong economic and social performance and, although some slowdown was predicted even before the impact of the particular difficulties in 2001, they are the basis of continuing

[3] Framework document published in November 2001 and *Building an Inclusive Society* published in February 2002

growth. The Government is equally committed to working to protect Ireland's economic and fiscal situation as the key prerequisite to providing the resources needed to achieve the objectives of this Strategy.

1.12 The Government believes achievement of social justice and an adequate income for all requires a high employment, high value-added society, where individuals and households have the opportunity to engage in satisfying, well-rewarded work and adequate social protection is available for those who cannot work (due to e.g. age, disability, illness). Such a society will generate the resources to sustain, through equitable and effective tax policies, the social protection and public services needed by the whole population. Within its overall approach, the Government attaches priority to those who are weakest and most vulnerable in our society. A central element of the Government's Strategy is to ensure that the net effect of all policies impacting on income levels in the community is such as to provide sufficient income for a person to move out of poverty and live in a manner compatible with human dignity. The very significant real increases in social welfare payments in recent years have made much progress towards this aim. The Government's target is to achieve a rate of €150 per week (in 2002 terms) for the lowest rates of social welfare to be met by 2007, with an appropriate equivalence level of basic child income support. The Government will continue to pursue a strategy of increasing social welfare payments as resources permit, so that people will have an income level to sustain an acceptable standard of living. This policy approach will be combined with an active social policy, the objective of which will be to enable individuals to support themselves and their families.

1.13 As provided for under the **PPF**[4], a Working Group was established to progress the implementation of administrative individualization within the Social Welfare system. The Group reported in August 2002. The issue has been on the policy agenda for a number of years. At present, social welfare claimants may receive an additional income for adult dependants, but the dependant may not - in the absence of a personal insurance record - have an entitlement in their own right. Separate payment is currently only available in difficult family situations and on request. Individualization would increase the number of people receiving a personal income from public funds. It would particularly benefit women, as typically adult dependants are women whose access to income support relates to the insurance record of a male breadwinner. The Group in its report has recommended a phased approach to administrative individualization be undertaken and identified range of issues of principle which need to be resolved in deciding how to move forward. As already announced by the Minister for Social and Family Affairs, as from 1 October 2002 qualified spouses and partners of people entitled to a Retirement or an Old Age (Contributory) Pension from the Department will be given a choice of having their part payment paid directly to them.

1.14 The **Agreed Programme** of the new Government formed in June of this year reiterates[5] our commitment to sustaining economic growth and maintaining full

[4] section 3.2.7
[5] page 7

employment in the Irish economy. We are committed to keeping the public finances in a healthy condition and will keep down personal and business taxes in order to strengthen and maintain the competitive position of the Irish economy. This will generate the resources needed to implement the revised National Anti-Poverty Strategy, including the reduction of consistent poverty to below 2%. Over the next five years, the Government's priorities with regard to personal taxation include the achievement of a position where all those on the national minimum wage are removed from the tax net and 80% of all earners pay tax only at the standard rate (currently 20%).

1.15 It should be noted that, under the allowances system that applied up to recently, allowances such as personal and PAYE tax allowances were worth more to higher rate taxpayers than to those paying tax at the standard rate. The move to tax credits was completed in the Finance Act 2001. This brought a greater degree of equity into the tax system, in that such credits now have the same value to all taxpayers regardless of income. However, there remains a substantial number of people who do not have a sufficient tax liability to benefit in practice from the full value of the tax credit available to them.

1.16 Issues relating to the precise design of taxation and benefits policy and how these two systems interact will remain important over the coming years as the Government moves towards the objectives of virtual elimination of consistent poverty and achievement of a fully inclusive society that protects and has a place for all its members. This Green Paper marks a further contribution to that debate.

Chapter 2

Basic Income: the concept, previous work and examination of the issue

2.1 A variety of terms have been used to describe approaches that aim to overcome the problems encountered by citizens in the face of separate tax and social welfare systems that are not completely co-ordinated by replacing them with a fully integrated system. These include Basic Income, citizen's income, social dividend. Here, we use the term Basic Income.

2.2 In its purest form, Basic Income may be defined as an unconditional income granted to each individual irrespective of personal circumstances. The Basic Income payment is tax free and all other income is taxed. The desirable level of Basic Income is seen as at a level sufficient to allow individual recipients to live with dignity and exercise real life choices. The level can variously be expressed as being at or above a determined poverty line, or equivalent to an 'adequate' social welfare rate, or a percentage of average employment incomes. Thus, introduction of the Basic Income concept would involve very considerable changes to our established Tax and Social Welfare systems.

2.3 The core idea has been summarised thus:

> *Give all citizens a modest, yet unconditional income, and let them top it up at will with income from other sources*[6]

and the key features of a Basic Income are that it is paid

- in cash, rather than in kind: thus there are no restrictions as to the nature or timing of the consumption or investment it funds
- on a regular basis, at intervals such as a week or a month, rather than being a once-off endowment
- by the State or other political community (e.g. a regional state Government) out of publicly-controlled resources
- to each person, rather than to households or heads of households
- without means test – thus eliminating a layer of administrative control and cost and all existing disincentives and poverty traps; and
- without work requirement – thus maximising flexibility and choice and the incentive to take up rewarding or socially-useful, but otherwise low paid, work.

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[6] Van Parijs, 2000

2.4 The following attractions have been put forward in favour of Basic Income by those in favour of its application in Ireland:

- *Simplicity: the scheme would be simple for both administrators and clients. Many of the existing administrative procedures could be abolished, (e.g. means testing, keeping of social insurance records* (but only under a 'pure' Basic Income system)

- *Poverty traps and unemployment traps arising from the existing tax and social welfare systems would be removed*

- *It would provide an automatic payment, thereby doing away with problems of non-take up and stigma. Any increase in taxation necessary to pay for the scheme would be paid back directly to citizens in the form of the Basic Income.*

- *It would give an independent income for all, including those who are not in the paid workforce, such as people working in the home who do not have an individual income*

- *Targeted approaches have failed to eliminate relative poverty: universal approaches, such as child benefit and basic income, may be more effective*

- *It would create a fairer and more cohesive society, in that it would*

  - *Be work and employment friendly*

  - *Promote equity and ensure that everyone would receive at least the level of income needed to avoid poverty*

  - *Spread the burden of taxation more equitably*

  - *Provide a fair way of approaching individualization of the tax system*

  - *Treat men and women equally*

  - *Be transparent*

  - *Be efficient in labour market terms*

  - *Reward types of work in the social economy that the market economy often ignores, e.g. household work, child-rearing, etc.*

  - *Facilitate further education and training in the labour force*

  - *Respond to the changes in the global economy, including technology developments and atypical working*

  - *Have very positive dynamic effects resulting from the range of improvements, both economic and social that would be associated with* *it.*

2.5 This '*beautifully, disarmingly simple idea*' has been championed as serving

> *Liberty and equality, efficiency and community, common ownership of the earth and equal sharing in the benefits of technical progress, the flexibility of the labour market and the dignity of the poor, the fight against unemployment and inhumane working conditions, against the desertification of the countryside and interregional inequalities, the viability of co-operatives and the promotion of adult education, autonomy from bosses, husbands and bureaucrats – all have been invoked in favour of …a Basic Income*[7]

2.6 However, the validity of the perceived attractions put forward is strongly contested on the other side of the debate. In contradiction to the perceived advantages, a number of fundamental disadvantages have been suggested, involving major negative dynamic impacts on the economy, essentially associated with the need to apply a single income tax rate of some 48% (as projected for 2001) in lieu of today's 20%/42% plus PRSI/levies of 6% regime in order to fund the Basic Income scheme as proposed, including

- *A reduction in the incentive to work or to work longer hours*
- *The likelihood that aggregate employment would fall or remain constant, while average productivity and output would fall*
- *The considerable additional pressure on wage levels and potentially on inflation and competitiveness which a shift to a Basic Income system and its associated high rate of marginal income tax would have*
- *The very high single tax rate needed to finance a Basic Income system which would compare unfavourably with the existing two rate progressive system and create a strong incentive to move into the informal economy and to avoid and evade tax*
- *The lack of progression in the tax system and inherent unfairness in an approach that taxes a worker on the minimum wage and a better-off person earning €100,000 a year at the same high marginal tax rate. Contrary to claims on its behalf, Basic Income would in fact spread the burden of taxation* ***less fairly*** *than at present.*
- *A shift towards low-skilled and away from higher-skilled and higher-paid employment*
- *The increased attractiveness of Ireland for low-skilled migrants who might depend on a Basic Income system and the reduced attractiveness of Ireland for those nearer the top of the skills/earnings distribution*

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[7] Van Parijs, 1992

- *Since Basic Income is a universal scheme, it is a poorly targeted way of addressing poverty*

- *It does not have the flexibility to meet different needs in different ways*

- *The assertion of simplicity is contradicted by the need to introduce a Social Solidarity Fund to respond to the many cases where the Basic Income as proposed would unacceptably reduce disposable incomes. This modified Basic Income approach would be just as complicated to administer as the current tax/social welfare system, and negates many of the perceived attractions of Basic Income*

- *Substantial increases in taxation (or reduction in actual rates of social support, or other expenditures) would be needed to finance Basic Income. Any analysis of the concept needs to consider, not just the cost in isolation, but the choices arising and the impact of using the same resources for other purposes (including tax reduction)*

- *Its impact on behaviour: for example, a lessening of the incentive to take up paid employment, could tend to correspondingly increase the income tax rate necessary to support the system*

- *Far from being work and employment friendly, the ESRI has found that the 'most likely outcome (would be) that aggregate employment would fall or remain constant, while average productivity and output would be less than under conventional options'.*

Issues in international debate on Basic Income

2.7 One of the key 'fault lines' in the international debate on the Basic Income concept revolves around the role of society as against the role of markets. On the one hand, proponents of Basic Income hold that it will make for greater human freedom, by lessening dependence on the lower-skilled and lower-paid end of the labour market, and greater social-well-being, by allowing individual to allocate their time optimally to paid work, family responsibilities, education, cultural pursuits and leisure. Opponents, on the other hand, focus on the potential restrictions to freedom resulting from over-dependence on the State and, in addition, on the reduction in overall material prosperity and the resources available to share amongst society's members if the disincentive effects discussed above predominate. In essence, the issue is whether maximization of liberty and of welfare are in conflict – due to the need to raise taxation – and liberty should prevail, or whether in an affluent society where traditional liberties and political rights are as a matter of law guaranteed for all, a Basic Income is needed to ensure effective liberty for all.[8] The debate also focuses on the changing nature of work. As technological change and automation reduce further and further the labour needed in the manufacture of physical goods, so the information, service and education sectors have come to predominate and the pattern of employment opportunities changes to meet new and emerging needs. Commentators from a conventional economic standpoint

[8] see, for example, Atkinson, Chapter 4

observe that this is happening in reality across the developed world: an economy based on manual labour is being replaced by a Knowledge Economy, with employment and enterprise opportunities that reach a new standard of intrinsic value and material reward freely available. The alternative theory is that concentration of wealth and skilled employment at a global level tends to create a new type of exclusion: only a Basic Income can sustain mass participation in the sharing of the fruits of economic success and ensure that society's resources are freed up to meet new and emerging needs and allow meaningful participation by all in the creation of new forms of wealth and value by moving beyond a wage-based society.[9]

2.8 At a moral level, the arguments range from a view that social justice and solidarity demand that all members of society share in its resources as of right – poverty and social exclusion represent not just an economic failure (in the sense either of a systems failure in the organisation of society, or an efficiency failure to mobilise all available human capital), but an affront to human dignity and a moral failure: a Basic Income sufficient to allow people to live with dignity and exercise genuinely free life choices is therefore an irreducible requirement for achievement of real social justice - to a view that effort should be rewarded: human progress and civilization depend on individuals who excel themselves in achievement on their own behalf, that of their families and that of society as a whole. Thus high marginal tax rates are not wrong merely because they may provide an economic disincentive, but because they are unfair: Basic Income is therefore objectionable because it fails to distinguish between effort and 'freeloading'.

2.9 Other commentators have argued for Basic Income as the only effective remedy for social exclusion, seeing means-tested social assistance schemes as are prevalent throughout the Developed World as creating a permanent underclass. A Basic Income system overcomes this problem by removing the poverty and unemployment traps, thus giving the excluded minority access to the market system of reward for individual effort, and secondly by giving everyone a universal share of resources on grounds of membership (citizenship), thus acting as a mechanism for including all in the common good. Seen in this light, Basic Income is a necessity to preserve democracy in the face of deteriorating social relations and withdrawal of participation by those who feel excluded.[10]

2.10 That these are different arguments, rooted in different economic theories and understandings of how social well-being can be maximised and addressing different aspects and levels of potential impact of Basic Income, illustrates the complexity of the issues to be weighed in an assessment of Basic Income. These issues are of interest in that they set the issue within the wider context which must be considered. However, the focus of this Green Paper is primarily on the empirical effects of the possible introduction of Basic Income and in the remainder of the Paper the focus is on reviewing the outcome of the analysis of potential impacts undertaken in Ireland.

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[9] e.g. André Gorz develops this argument from the standpoint of a radical rejection of liberal economic theory

[10] see the article by Bill Jordan in Van Parijs, 1992, for a development of this argument.

Early Empirical Work on Basic Income in Ireland

2.11 In the late 1970s, the National Economic and Social Council, which includes representatives of social partners, government appointees and key civil servants, commissioned a report on how personal income tax and transfers might be integrated. This report (NESC, 1978) examined three broad options, one of which was Basic Income. Subsequently, the report generated very little discussion about Basic Income. However, it did provide the basis for a wide-ranging debate about tax reform that culminated in the establishment of the Commission on Taxation. The first report of the Commission on Taxation (1982) contained a brief examination of Basic Income, which it rejected, mainly on cost grounds. Similarly, the Commission on Social Welfare (1986) rejected Basic Income on cost grounds, but also because in its view, the concept might represent a detour from the priority objective, as the Commission saw it, of increasing social welfare rates to adequate levels and because the Commission favoured an incrementalist reform approach over radical change. The Commission expressed the view that Basic Income was not properly targeted, was not sufficiently flexible to meet a variety of needs and would require a substantial increase in taxation. It is important to bear in mind, however, that the Commission's conclusion and cost calculations were made in the context of a social welfare system in which (in general) the total payment was lost if one took up a job.

Examination of Basic in Ireland from 1987 onwards

2.12 From 1987 onwards, there have been two approaches to studying Basic Income in Ireland. The first approach assumed preservation of key elements of the existing tax and spending systems.[11] The second approach substituted Basic Income for the existing tax and welfare systems and some other Government spending.[12] The models developed by Honohan and Callan were similar. Each adult of working age would receive an untaxed payment equivalent to that paid as unemployment assistance (in the social welfare code): this was seen as a 'full Basic Income'. Elderly people would receive somewhat higher payments and children would receive smaller amounts. All social welfare payments would be discontinued. Existing 'discretionary' tax reliefs (such as mortgage interest, employee pension contributions, etc.) would be retained. All Government spending programmes would be retained.

2.13 Both Honohan and Callan found that a very high tax rate would be required to fund this type of proposal. Tax rates in excess of 65% would be required on all personal incomes. It was seen that such a rate would act as a disincentive to people taking up employment. In addition, Callan found that the income distribution effect of this proposal was not advantageous for significant numbers of low-income households. Honohan and Callan concluded that these models of Basic Income should be rejected. This view was endorsed by the Expert Group on the Integration of the Tax and Social Welfare Systems.

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[11] cf Honohan, 1987, Callan et al, 1994

[12] cf Ward 1994, CORI 1994, 1995 and 1996, Healy and Reynolds 1995, Clark and Kavanagh 1995, Clark and Healy 1997

CORI contribution to the debate

2.14 The CORI Justice Commission agreed with the Honohan and Callan assessment that this model of Basic Income was not viable in the Irish context. CORI's objective was to achieve the main benefits of Basic Income, while reducing the cost, so that the tax rate (including social insurance contributions) required would be no more than 50% - which was lower than the top combined income tax and social insurance rate in the Ireland in the mid-1990s. Seán Ward had follows this approach in his 1994 study. The main characteristics of this alternative approach were:

- A 'full' Basic Income for older people and for children
- A substantial 'partial' Basic Income for adults of working age. This would be topped up to the level of unemployment assistance for people who were unemployed
- The abolition of all discretionary tax relief
- A range of public expenditures would be abolished
- Employers' social insurance contributions would be abolished
- Government support for industry would be reduced.

2.15 The new model was argued by CORI to have several advantages over the current systems, viz. more equity - both horizontal and vertical - improved incentives to recruit labour and seek work and greater simplicity and certainty. CORI adapted and developed this approach and proposed a number of variations on how it might be implemented in practice, arguing that the economic growth experienced in Ireland in recent years substantially reduced the tax rate necessary to fund a 'full' Basic Income for everyone in the country. This made it possible – in CORI's view - to consider having a full Basic Income for everyone, instead of the earlier proposals for a 'partial' Basic Income for adults of working age. A significant development in the debate took place in 1997, with the publication by the Conference of Religious of Ireland (CORI) of **Pathways to a Basic Income** (Clarke and Healy, 1997). In **Pathways**, Clarke and Healy argued that the introduction of a full Basic Income in the Irish economy would have positive effects in terms of labour market efficiency and equity. The report outlined a range of implementation options, including a stepped approach to implementation over three years.

Expert Group on Integration of the Tax and Social Welfare Systems

2.16 The **Expert Group on Integration of the Tax and Social Welfare Systems**, which reported in 1996, examined a number of variations on Basic Income. The Group concluded that a full Basic Income scheme would be highly problematic and the high tax rates needed to fund it would have a deleterious effect on employment. The Group considered that, whether or not Basic Income became feasible at a future point would depend on relative movements in a large number of variables, such as the desired level of Basic Income, the tax rates that may be imposed, the dependency ratio in the population, the relative level of employment, movements in the amounts of personal allowances, and any changes in the social welfare systems and structures in other EU countries.

2.17 The Group also explored two variants of Basic Income to see the extent to which the benefits of a full scheme could be achieved without having to adopt the very high tax rates required to finance a full Basic Income for all at the level of current social welfare payments. The first of these was Basic Income for children only and the second variant was a Partial Basic Income.

Basic Income for Children

2.18 In relation to child income support, the Integration Group looked at a number of approaches and concluded that a number of ways forward were possible. Subsequent Government policy has been to radically increase the level of Child Benefit – which can be seen as a form of Basic Income paid in respect of all children - as a key mechanism to reduce levels of child poverty and to provide child income support. In this regard, the Government has made a commitment in the **Programme for Prosperity and Fairness**[13], to substantially increase the payment over the period of the Programme, with a priority focus towards €127 per month for third and subsequent children – since then, Budget 2002 has raised this payment to €147.30.

Partial Basic Income

2.19 **Partial Basic Income** is similar to full Basic Income, in that every adult would receive an unconditional payment; however, unlike full Basic Income, this would be at a lower rate than social welfare payments. It is therefore not intended to be an adequate payment in itself: some form of 'top up' payment would be required. This could involve retaining the existing social insurance and social assistance payments (from which the BPI would be deducted), or could, alternatively involve changes in these arrangements. Partial Basic Income would also involve abolition of personal tax allowances (since replaced with tax credits).

2.20 The Integration Group considered that Partial Basic Income (PBI) was worth examining in the course of its work for a number of reasons. It could be seen as a stepping stone towards full Basic Income. Even if this is not an aim, a partial Basic Income concept is of interest in its own right. If set at a high enough level, the Group felt it could reduce the uncertainty associated with loss of benefits in the existing tax/transfer system, thus having a positive impact on disincentives. It also represented a possible mechanism for recognising unpaid work and for redistribution of income to different household members.

2.21 Key issues in determining the viability or otherwise of a Partial Basic Income approach would include the level of payment and the associated tax rate needed to fund it, the form and status of top up payments, the unit of assessment (individuals or family units) and the question of payments for children. A number of specific rates for a PBI were examined. The Integration Group concluded that a Partial Basic Income system lost many of the attractions of a

[13] Paragraph 3.2.4, page 80

full Basic Income system because of the complexity required to top up the payment through the social welfare system. At a lower rate, PBI would not substantially improve employment incentives. While a higher rate PBI would have advantages in terms of simplicity, it would require substantially increased tax rates. **For these reasons, the Integration Group did not recommend a Partial Basic Income in the short to medium term, but considered that the option could be reviewed in the future.** The Group went on to make a number of recommendations for improved employment incentives, which were subsequently implemented.

Examination of Basic Income under Partnership 2000

2.22 As indicated in **Chapter 1**, a Steering Group on Basic Income was established in line with the commitment in **Partnership 2000 for Inclusion, Employment and Competitiveness** to examine the issues involved. The Group was comprised of representatives of all four Pillars of social partnership as well as the relevant Government Departments including the Departments of Finance; Enterprise, Trade and Employment; and Social, Community and Family Affairs. It was not the role of the Group to reach a conclusion or make recommendations about a specific model of Basic Income. Its role was to oversee a series of commissioned studies on Basic Income.

2.23 The agreed Terms of Reference divided the study into two phases

- Phase I: an evaluation of the cost and distributional implications of the introduction of a Basic Income scheme similar to that proposed by CORI in **Pathways to a Basic Income** (Clarke and Healy, 1997) on a static, or 'first round' basis (i.e. before any individual changed their behaviour in response to the introduction of the scheme) and

- Phase II: an examination of the dynamic effects of such a system from a broad economic and social perspective (i.e. considering the likely changes in decisions by individuals and firms, the broader economic and social impact of such changed behaviour and the potential impact of such changes on the tax rates required to finance the Basic Income proposal.

2.24 The Steering Group was particularly anxious to examine the effects of a Basic Income on **poverty** (including the immediate and long-term impact and distributional implications), **labour markets** (including work incentives, participation rates, effects on **industrial policy** and prospects for **economic growth**, the **gender** dimension, and implications for **migration patterns**.

2.25 Phase I was further broken down into two main elements:

a) an aggregate analysis of the costing of the Basic Income scheme, using macroeconomic statistics, and an analysis of the distributional effects on illustrative households, along the lines of Clark and Healy, 1997.

b) a microsimulation-based analysis of the costs and distributional impact of a Basic Income on actual families, using a tax benefit model based on relevant survey data.

2.26 **Part (a)** of the study was undertaken by Professor Charles Clark, St. John's University, New York, author of several studies on Basic Income. **Part (b)** was carried out by the Economic and Social Research Institute team, led by Dr. Tim Callan, who employed the SWITCH microsimulation model. The ESRI also had previous research experience on Basic Income Systems with their publication *An Analysis of Basic Income Schemes for Ireland*, 1994 and their involvement in the Government Working Group Report *Integrating Tax and Social Welfare Systems* 1996.

2.27 **The text of the three study reports commissioned by the Steering Group are available on the Department of the Taoiseach website (http://www.taoiseach.gov.ie/viewitem.asp?id=1633&lang=ENG).**

2.28 Previous studies undertaken by Clark & Healy and the ESRI, although looking at the same broad issue, came up with very different results. In their previous report, the ESRI produced estimates of the necessary tax rates needed to fund a Basic Income system in Ireland of up to 68% or more. Clark and Healy, meanwhile, using the Revenue Commissioners estimates of the tax base showed that the CORI Basic Income Plan should be financed with a 48% flat tax. The reason for having two consultants investigate the Phase I questions was the desire of the Working Group to discover the source of these differences. Some of the difference could be explained by the fact that different variants of the Basic Income concept had been examined, but some could possibly be due to different research methods and methodologies. Hence, the Working Group's desire to have the two sets of researchers look at the same proposal, using two different methodologies.

2.29 In earlier studies, much of the difference in estimated tax rates above can be explained by the fact that the specific proposal examined by the ESRI was significantly different from the one proposed by CORI and analysed in Pathways.

Parameters Used in the Study

2.30 The analysis was carried out on the basis of a modification of the CORI Basic Income proposal, to allow the structural effects of a Basic Income rather than the effects of the level of payments, to be examined. The Group's concern was with the broad concept of Basic Income rather than any specific scheme. For the purposes of this study a Basic Income option was developed for the year 2001, based on information available at the time of Budget 1998, i.e. February 1998. The option was developed so that it would have available precisely the same level of exchequer resources as three "conventional" options which were also projected to 2001. The intention behind this equalisation of resources was that the effects of Basic Income as a system could be compared with "conventional" options.

2.31 All of the recent work on Basic Income that had been carried out under the aegis of CORI had included a Social Solidarity Fund, which would permit targeted payments to be made to certain low-income groups. Within the above Exchequer constraint and in consultation with the ESRI, the Steering Group developed detailed specifications for the disbursement of such a Fund and these disbursements were included in the comparisons of Basic Income with "conventional" options. The Group did not examine the detailed administrative and eligibility conditions which would be necessary to achieve such targeting, as the analysis was intended to be indicative rather than comprehensive. Consequently, no judgement was made about the viability of these provisions. A number of iterations of a Basic Income proposal that includes the application of a Social Solidarity Fund were considered by the Group. Following discussion with the consultants, a number of important assumptions and parameters were set for the analysis.

- Basic Income payment levels were aligned with anticipated social welfare rates by applying the resources available for increases above indexation to the implementation of the commitments under **Partnership 2000** and to the creation of a uniform higher rate of payment for those aged over 66. This was done so that the income distribution effects of Basic Income compared to conventional options would be attributable to the Basic Income system rather than particular payment levels. The Basic Income levels set would provide most adults with a payment of about 36% of average disposable income. The ESRI also calculated the tax rate implications of having the basic benefit rate in 2001 set at 48% of average income.

- It was assumed, conservatively, that £250 million (€317.43 million) of tax cuts (on a full year basis) in line with the notes to the multi-annual budgetary projections; would be made available in each of the years 1999, 2000 and 2001.

- It was assumed that all farm income supports, which reflect EU policies, would remain in place. The rate of DIRT was set at 24%. A Social Responsibility Tax, which forms part of the Basic Income structure and would replace employers' PRSI, was set at 8%.

2.32 The Group agreed these technical assumptions for the purposes of the study. Some variants were examined in the research by way of sensitivity analysis. The benchmark scenarios against which the Basic Income approach was compared, were taken to represent a reasonable approach to the structure of tax and social welfare policy, without implying any commitment to the particular set of rates; payments or tax/social welfare structure.

2.33 While in retrospect the benchmark scenarios and economic assumptions may seem to have been conservative, these do not invalidate the research. The key point underlying the research is that the structural comparison between Basic Income and the conventional system should be done on a consistent basis and this was achieved.

Phase II Study

2.34 The Phase II Study sought to assess the dynamic effects of the introduction of a Basic Income and the long-term sustainability of a Basic Income scheme, having regard to Ireland's open borders and the free movement of people and capital within the EU and well as future completion of the introduction of the single currency. It was recognised that the introduction of a Basic Income would radically alter the financial work incentives facing many individuals in the population. Some of these changes – for example, improvements in the financial incentives to take up employment for some of these currently unemployed – are the intended consequences of the scheme. But there are also wider changes in financial work incentives associated with the introduction of Basic Income, affecting those in employment and others in the potential labour force. Disentangling the effects of these complex changes in the balance of financial incentives across different individuals was a central objective of the Phase II study.

2.35 The information derived from Phase I provided a basis for Phase II. The second phase of the study was carried out by the ESRI in collaboration with NUI Maynooth. As the Phase I analysis was essentially empirical, it did not allow for behavioural changes in the labour market as a result of a Basic Income scheme and the impact on economic growth and competitiveness. The Phase II analysis was necessarily more speculative in that it was concerned with possible changes in behaviour of different groups of people consequent on the introduction of Basic Income. As Basic Income has not been implemented in any country, the Phase II inquiry sought out relevant evidence to give best judgement on the likely impacts of Basic Income.

Key issues from Phase II study

2.36 The key issues examined in the Phase II study are

- impact on labour supply
- impact on migration and on the informal economy
- impact on the labour market
- impact on economic growth and competitiveness

Social Solidarity Fund

2.37 The Basic Income scheme studied by the consultants included a Social Solidarity Fund amounting to £387 million (€419.39 million), aimed at compensating those on low-incomes who would lose out in a transition to Basic Income. However, the exact scope of the Social Solidarity Fund had not been specified at the time the studies were initiated. An initial microsimulation analysis of the Basic Income proposal without a Social Solidarity Fund revealed a substantial number of losers in the bottom four income deciles. The ESRI noted that the aggregate amount earmarked in the proposed fund had the potential to compensate low-income losers, if it were sufficiently well targeted.

2.38 Following consideration of the draft reports, the Steering Group agreed a possible specification of the Social Solidarity Fund. The technical specification set out below was agreed by the Group for the purposes of the research study, and did not imply any commitment to such specific policies or rates of payment. The Group did not examine the detailed administrative and eligibility conditions which would be necessary to achieve such targeting, as the analysis was intended to be indicative rather than comprehensive. Consequently, no judgement is made about the viability of these provisions.

2.39 The possible payments agreed – reflecting 2001 social welfare rates - were:

- An additional payment of €38.09 (£30) per week to those living alone or where a second adult is in need of care (only made to those households where there is no source of income in the household apart from Basic Income)

- The basic rate of payment for the third and subsequent children to be raised to €30.22 (£23.80) per week

- A disability payment of €5.08 (£4) per week

- A temporary transitional payment for 18-21 year olds who, on the introduction of a Basic Income system, were on a higher rate of Unemployment Assistance than the Basic Income

- A special tax allowance of €2,539.48 (£2,000) for elderly people in receipt of an occupational pension and who currently have an entitlement to a Contributory Old Age Pension

- The allocation of a sum of €127 million (£100m) for socially useful work.

Overview report

2.40 The Steering Group completed its work in March 2001 and submitted an overview report, which was made available to the social partners. A copy of its report is available at http://www.taoiseach.gov.ie/viewitem.asp?id=1633&lang=ENG. It is important to note that the Group did not consider a specific detailed model of Basic Income, but rather the implications of a Basic Income approach. The studies showed that Basic Income would have complex effects, in terms of the initial redistribution, the possible consequent behavioural changes, and their economic impact. The Working Group concluded that the studies represent a significant move forward in our understanding of these complex issues, and the interplay between considerations of equity and efficiency to which they give rise.

2.41 **Chapter 3,** which follows, draws to a considerable extent on the analysis and conclusions arrived at in the research studies commissioned by the Working Group.

Chapter 3

Assessment of the possible impact of a Basic Income approach in Ireland

Impact on taxation and budgetary position

3.1 The Basic Income payment (2001 figures) used for the purposes of the studies was €94.98 (£74.80) per adult to be indexed over time, (€121.89 (£96) for an elderly person), and that the costs of these hypothetical Basic Income payment levels would be some €15.25 billion (£12 billion), which would need to be funded by either tax or savings on other areas of expenditure. The ESRI calculated that this would require a tax rate of 51.6%. When the social solidarity fund was specified more precisely the required tax rate was closer to 53%. Clark estimated a rate of 47.26%.

3.2 The different rates reflect differences in the respective approaches to determining the available tax base, the cost of funding Government services (other than the elements of a Basic Income system) and the treatment of a Social Solidarity Fund, which would compensate those losing out in a transition to Basic Income. The sensitivity analysis carried out by the ESRI sets out some of the differences, and yields a tax rate in the range of 2 percentage points lower, or 1 percentage higher, than the original estimate. In the context of the different methodologies, the Steering Group considered that both sets of estimates represent a reasonable indicator of the range of likely tax rates, and that the difference does not invalidate either study.

3.3 The parameters supplied to the consultants in February 1998 were rapidly overtaken by the faster than expected economic growth that occurred since then. In 1999, the Steering Group asked the Department of Finance to provide updated tax base data to enable the consultants to prepare a new estimate of the required tax rate. The result of this exercise was that a rate of 47.7% would have been required in 2001. (As it would be too cumbersome to introduce fractional income tax rates into a tax system, we refer to a rounded rate of 48% in this Green Paper.) The Steering Group – which reported in March 2001 - also concluded that further economic growth since 1999 would enable this estimated tax rate to be reduced further. Given recent developments in relation to the income tax base, this is not entirely certain. Equally, the tax rates applicable in the conventional benchmark scenarios would also be reduced, so that the ***increase*** in income tax rates needed to fund a Basic Income system would remain unchanged. Tax reductions significantly in excess of the benchmark assumptions have, of course, been implemented over the past three years. On the other hand, it is clear that on the basis of a static analysis that a tax rate of less than 48% would have been required by reference to the actual 2001 tax base and it is argued by those who favour Basic Income that continued economic growth and the dynamic effects of Basic Income – were they to prove to be positive – would allow this tax rate to be reduced still further.

3.4 The additional resources which were calculated to be available for this updated estimate were not included in the income distribution analyses of Basic Income that were carried out by the two sets of consultants. The reason for this is that the additional resources could be used not just to enhance Basic Income but equally they could be used to enhance the conventional options. Hence, by using tax rates which they calculated based on the original study parameters, the consultants achieved "like with like" comparisons.

3.5 It is useful at this stage to compare the effective or average tax rates that might apply under a Basic Income system with those under the current system. We assume for the purpose of these examples following that the adults are aged between 21 and 64 and children are between 0 and 17. In the case of the married/2 incomes category, we assume the income is spit 50:50. To enable us to make a correct comparison, the presentation of the current situation for these sample taxpayers needs to reflect the impact of both the tax and social welfare systems. Therefore, to ensure that we compare like with like, we need - in the case of the current system - first to add Child Benefit and Family Income Supplement to gross incomes and then calculate percentage effective tax rates by reference to the original gross income.

3.6 In the case of the model studied for the Steering Group, we get the effective tax rates set out in the following table:

Table 3.6: Sample effective tax rates under Basic Income (48% tax rate and projected 2001 Basic Income rate of €95 per week for adults and €29.07 for children) model developed for Steering Group

Income ('earned income'), before BI	Single	Married one income 2 children	Married 2 incomes 2 children
€6,000	-34.3%	-167.0%	-167.0%
€12,000	6.8%	-59.5%	-59.5%
€20,000	23.3%	-16.5%	-16.5%
€25,000	28.2%	-3.6%	-3.6%
€30,000	31.5%	5.0%	5.0%
€40,000	35.7	15.7%	15.7%
€60,000	39.8%	26.5%	26.5%

3.7 However, this model was constructed on the basis of relating the Basic Income payment to an assumed, rather than an actual social welfare rate for 2001. If we relate the rate of Basic Income to the actual current (2002) social welfare basic payment of €118.80 for adults and €36.45 for children (same percentage of adult rate as used in original study), but assume no change in the tax rate (which depending on the dynamic effects one anticipates and the impact of overall growth in the economy could go up or down), we get comparative tax rates as set out in Table 3.7.

Table 3.7: Sample effective tax rates under Basic Income (48% tax rate and assumed 2002 Basic Income rate of €118.80 per week for adults and €36.45 for children)

Income ('earned income'), before BI	Single	Married one income 2 children	Married 2 incomes 2 children
€6,000	-55.0%	-221.1%	-221.1%
€12,000	-3.5%	-86.6%	-86.6%
€20,000	17.1%	-32.7%	-32.7%
€25,000	23.3%	-16.6%	-16.6%
€30,000	27.3%	-5.8%	-5.8%
€40,000	32.6%	7.6%	7.6%
€60,000	37.7%	21.1%	21.1%

3.8 Under our current tax system with two rates – 20% and 42% - and 6% PRSI/levies, earners paying full PRSI on incomes ranging from €6,000 to €60,000 per annum pay the actual tax rates on earned income set out in table 3.8 below.

Table 3.8: Sample effective tax rates with two nominal rates of 20% and 42% and employee PRSI/levies of 6%[14]

Income	Single	Married one income 2 children	Married 2 incomes 2 children
€6,000	0.0%	0.0%	0.0%
€12,000	1.8%	0.0%	0.0%
€20,000	13.8%	4.7%	0.0%
€25,000	16.2%	7.1%	2.6%
€30,000	19.3%	10.2%	7.7%
€40,000	26.4%	15.7%	13.8%
€60,000	32.4%	25.3%	19.3%

3.9 However, as indicated above, this table needs to reflect the impact of Child Benefit and FIS is we are to achieve like-with-like comparisons. Considerable progress has been made in recent years on increasing child benefit. As detailed in the following table, rates have more than doubled in the period 2000 to 2002 and the value of the increased payments has been further enhanced by a progressive bringing forward of the implementation date of the annual increases.

[14] taken from 2002 Budget Booklet published by Department of Finance

Table 3.9: Monthly rates of Child Benefit, 2000 – 2002			
	From September 2000	**From June 2001**	**From April 2002**
First and second child	€53.96	€85.71	€117.60
Third and subsequent children	€71.11	€109.20	€147.30

3.10 The weekly amount of Family Income Supplement (FIS) payable is 60% of the difference between the family weekly income (gross income less tax, PRSI and superannuation) and the income limit for that family size. In the case of a family with two children, the current income limit is €388 per week.

3.11 The effect of child benefit and FIS on current (2002) effective tax rates is presented in Table 3.11[15] below. Note that for people who have a zero or very low percent effective tax rates and also have children, the outcome to this exercise can be a negative figure. This is because for some people net disposable income is higher than earned income, once Child Benefit and FIS are taken into account. While both the 'before' and 'after' child benefit position is that the tax rate is at 0.00% or is a very low figure, representing the position after child benefit is added to the equation in this way gives a more accurate position of how the tax payers' circumstances have changed. For example, after child benefit is added to the income of a married couple with two incomes of €25,000 and two children, their net income is 8.0% above the original gross 'earned' income. Previously they paid 2.6% tax on their earned income. They are still paying the same monetary amount of tax (€650 per annum), but the tax bill is more than outweighed by the Child Benefit payment (€2,822.40 per annum as from April 2002: FIS doesn't apply in their case). Saying that their tax rate is negative (at –8.0%) more accurate captures the dynamic of the change in their circumstances – and leads into more accurate comparisons with the Basic Income tables that follow – than saying that this couple now pay 2.4% of their revised total income in tax. The latter figure is accurate, but fails to reveal the key point that the 0.2% *reduction* in the effective tax rate masks a net income that is *higher* than gross income before child benefit is taken into account. It does so because it is a percentage of a higher gross figure[16].

[15] the table assumes 100% take up. However, it is estimated that only about 1 in 3 potential claimants actually claim FIS.
[16] all % figures are rounded to one decimal place. Monetary amounts in this paragraph and in the tables which present the comparative effective tax rates are also rounded.

Table 3.11: Sample effective tax rates with two nominal tax rates of 20% and 42% and employee PRSI/levies (6%), taking child benefit and FIS into account

Income (original gross)	Single (no change in income)	Net income for married one income, 2 children	Married one income 2 children – revised actual tax rate	Net income for married two incomes, 2 children	Married 2 incomes 2 children
€6,000	0.0%	**€ 17,160**	-186.0%	**€ 17,160**	-186.0%
€12,000	1.8%	**€ 19,572**	-63.1%	**€ 19,572**	-63.1%
€20,000	13.8%	**€ 22,372**	-11.9%	**€ 23,308**	-16.5%
€25,000	16.2%	**€ 25,867**	-3.8%	**€ 26,992**	-8.0%
€30,000	19.3%	**€ 29,566**	1.4%	**€ 30,319**	-1.1%
€40,000	26.4%	**€ 36,352**	9.1%	**€ 37,120**	7.2%
€60,000	32.4%	**€ 47,464**	20.9%	**€ 51,040**	14.9%

3.12 For ease of reference the figures in Tables 3.7 and 3.11 are presented together in table 3.12 following. The figures for the possible situation under Basic Income are illustrative only. **Given that the dynamic effects of the introduction of Basic Income cannot be predicted with certainty, we can only make comparison on the basis of assumptions. Here the key assumptions are in relation to the rate of tax (48%) and the Basic Income payment rate.** In practice, the actual tax rate would depend on the level of economic growth, the impact of the dynamic effects of the possible introduction of Basic Income and the precise rate of Basic Income chosen and the tax rate could go up or down, depending on the net impact of all these variables. The comparative advantage of a Basic Income system for some taxpayers as shown in the table below may vary depending on the rates of payment and rate of tax actually employed were such a system to be introduced.

Table 3.12: Comparison of sample effective tax rates under Basic Income (48% tax rate and assumed 2002 Basic Income rate of €118.80 per week for adults and €36.45 for children) and current system (two nominal tax rates of 20% and 42% and employee PRSI/levies (6%), taking child benefit and FIS into account

Income ('earned income'), before BI	Single		Married one income 2 children		Married 2 incomes 2 children	
	Effective tax rates					
	(current)	(BI)	(current)	(BI)	(current)	(BI)
€6,000	0.0%	-55.0%	-186.0%	-221.1%	-186.0%	-221.1%
€12,000	1.8%	-3.5%	-63.1%	-86.6%	-63.1%	-86.6%
€20,000	13.8%	17.1%	-11.9%	-32.7%	-16.5%	-32.7%
€25,000	16.2%	23.3%	-3.8%	-16.6%	-8.0%	-16.6%
€30,000	19.3%	27.3%	1.5%	-5.8%	-1.1%	-5.8%
€40,000	26.4%	32.6%	9.1%	7.6%	7.2%	7.6%
€60,000	32.4%	37.7%	20.9%	21.1%	14.9%	21.1%

3.13 The figures support the broad thrust of the ESRI conclusions. The differences for some higher income earners are significant, but not as great as a simple comparison between marginal or nominal tax rates might suggest. The impact for low- and middle-income earners is mixed and depends on the rate of Basic Income assumed. Some gains are substantial.

Impact on poverty and equality

3.14 The distributional analysis carried out under the aegis of the Steering Group compared the outcome in 2001 under the proposed Basic Income system with the outcomes of three 'conventional' options with access to the same resources. This type of analysis is very rigorous. It differs from analyses that are usually carried out of the annual Budget, where pre and post-Budget outcomes are set out side by side; in this usual kind of analysis comparisons between pre- and post-Budget situations can show that every person has gained in absolute terms. However, in the analyses that were undertaken for the Steering Group, it is not possible to achieve an outcome where everyone gains. This is because the gains experienced by some people under any option, in relation to an alternative option, must be balanced by losses under this option that would be experienced by other people in relation to the alternative option. It is also important to bear in mind that this methodology can categorise as 'losers' people who would see their absolute incomes raise under a Basic Income system, but not by as much as under the conventional alternatives involving tax cuts.

3.15 Distributional effects were first analysed by both sets of consultants **before the Social Solidarity Fund was distributed.** The different methodologies used by consultants to examine the distributional effects yielded somewhat different results. The specification of a Social Solidarity Fund provided a mechanism to compensate losers under the hypothetical scheme. It is important to note that the precise details chosen for the Fund for the purposes of the Studies were merely indicative, in order to provide a broad view of how such a fund would operate. Also the Social Solidarity Fund reintroduces a form of means testing into the tax/welfare system – obviated under a 'pure' Basic Income system - and implies retention of significant elements of the administrative costs associated with such a system.

3.16 Clark found that the average household income for all of the bottom 6 deciles would be higher in 2001 than under the conventional system, while average household income in the top 4 deciles would be lower in 2001 than under the conventional policies. Clark also found that over a three-year implementation period, average households in every decile would see their disposable incomes rise in absolute terms; under the conventional system, some growth in absolute incomes would also occur, but the growth in incomes would then to be skewed towards the better off.

3.17 The ESRI also found that on average there were gains for the bottom six income deciles and losses for the top four, but for each income decile and for almost all family types there are substantial numbers of gains and losses. At individual household level, this analysis found that families headed by single, widowed, separated or divorced persons, rather than by a couple, accounted for most of the potential losers. Single unemployed, lone parents and others (including those who are ill or disabled, some carers and widows below pension age without children) account for 95% of all potential losers in the bottom four income deciles.

3.18 **When the Social Solidarity Fund is distributed** the ESRI found that the effects on Basic Income in relation to poverty would be as follows:

- 70% of household in the bottom four deciles would gain from Basic Income, while 16% would lose compared with conventional options

- Half of the individuals who would be below the 40% poverty line under conventional options would be brought over this poverty line by Basic Income.

3.19 It is worth looking in some detail at the ESRI's[17] assessment of the impact the proposed Basic Income system with Social Solidarity Fund would have on various categories of households, as compared with options involving conventional tax cuts (as explained in paragraph 3.1 above). The modified Basic Income proposal involves gains for 945,000 tax units, and losses for 855,000. Both average gains (for gainers) and average losses (for losers) tend to be quite substantial. Overall, 70 per cent of tax units in the bottom 4 deciles would gain from the introduction of a Basic Income, 18 per cent would be unaffected and 12 per cent would lose.

3.20 Table 3.20 below examines the size of gains and losses across the income distribution range. We can group the bottom 4 deciles, deciles 5 to 7, and the top 3 deciles together, corresponding to lower, middle and higher-income groups respectively. Just under 1 in 3 tax units are set to experience a large gain, while more than 1 in 3 would experience a large loss. Small or intermediate gains are more common than the corresponding losses. But there is considerable variation in the incidence of the different sizes of gain and loss across the income distribution. Looking first at the bottom 4 deciles, the ESRI found that almost 45% of tax units would gain more than €12.70 per week from the introduction of a Basic Income, while only 6% would experience a similar loss. Among the middle income groups, about 40% would see a large gain while 1 in 4 would face a large loss. For the top 3 deciles, by contrast, about 5 out of 6 tax units face a large loss, while only 7% would see a similar gain. In summary, out of a working population of just under 2 million, 45% are gainers, while 43% are losers. Just one in three tax units are set to experience a large gain while more than one in three would experience a large loss.

[17] Tables taken from Chapter 5 of the ESRI's study for phase 1

Table 3.20: Distribution of Gains and Losses by Size, Classified by Income Decile, Basic Income with Compensation versus Mixed Tax Cut

	Loss per week			Little change	Gain per week		
	Over €12.70	**€6.35 to €12.70**	**€1.27 to €6.35**	**Less than €1.27**	**€1.27 to €6.35**	**€6.35 to €12.70**	**Over €12.70**
Decile	**Thousands of tax units**						
1 (Bottom)	4.1	1.5	1.6	0.2	6.2	7.2	178.2
2	19.7	0.0	0.0	88.9	22.9	18.7	49.8
3	10.6	6.2	16.5	50.0	13.5	17.5	83.0
4	15.4	7.2	11.3	25.4	42.2	36.7	61.5
5	34.1	6.6	2.4	30.8	9.4	7.2	108.7
6	39.7	7.2	12.2	17.2	23.4	19.0	80.3
7	70.2	32.4	26.1	3.8	6.1	10.1	49.2
8	158.1	15.0	4.1	2.2	3.4	2.1	15.2
9	177.2	6.5	0.8	0.8	0.4	1.5	11.6
10 (Top)	177.5	1.4	0.5	0.7	1.5	1.7	16.1
Total	706.6	84.1	75.5	220.0	129.0	121.8	653.6

3.21 Focusing again on the bottom 4 deciles, Table 3.21 shows that large gains are particularly likely for couples dependent on welfare payments, including both the unemployed and the elderly. Gains arise for such couples principally from the payment of a full basic benefit rather than a qualified adult additional payment under the social welfare code. Single employees in these deciles are also likely to gain, as their low earnings mean that the gain from the basic benefit outweighs any negative impact from the application of a higher tax rate to their earnings. Low earning couples with children also gain, in part because the payment of basic benefit is automatic, whereas they may not be taking up their entitlement to Family Income Supplement. There are large gains also for some single unemployed, which can reflect the fact that a full basic benefit is paid rather than an unemployment assistance payment reduced by the “benefit and privilege” assessment for young adults living with their parents.

Table 3.21: Distribution of Gain and Loss by Family Type for Tax Units in Lowest 4 Income Deciles, Basic Income with Compensation versus Mixed Tax Cut

	Loss			Little change	Gain		
Family Type	**Over €12.70**	**€6.35-€12.70**	**€1.27-€6.35**		**€1.27-€6.35**	**€6.35-€12.70**	**Over €12.70**
Single Employee	11.8	3.4	3.9	7.3	5.0	6.6	70.8
Single Unemployed	17.5	1.3	1.5	39.5	10.9	15.4	19.4
Lone Parents	10.8	3.1	2.6	29.2	2.5	2.0	32.9
Couples with/without Children	0.1	0.2	0.0	0.6	0.7	0.5	67.5
Unemployed Couples with/without Children	2.1	0.8	0.6	0.6	1.0	0.7	26.1
Single Retired	1.4	3.7	8.7	66.7	41.2	42.4	14.7
Retired Couple	0.6	1.1	0.3	0.5	1.7	0.6	26.9
Other	5.6	1.3	11.7	20.2	21.9	11.9	113.4
Total	49.9	14.9	29.3	164.5	84.9	80.1	372.5

3.22 It is noteworthy that, while almost 70% in the bottom four deciles would gain from the introduction of Basic Income, 12% in these categories would actually lose. On the other hand, around two thirds of these in the top six deciles would lose under Basic Income, while for the top three deciles, about five out of six would face a large loss, while only 7% would see a similar gain.

3.23 The Social Solidarity Fund substantially reduces the number of low-income losers, as intended, compared with a 'pure' Basic Income approach. However, the nature of the compensation mechanisms used – which tried to avoid serious departures from the principle of a Basic Income – means that there would be difficulties in targeting the payment. These difficulties would lead to some significant remaining losses, and a cost of compensation which would be substantially greater than simply the sum of the potential losses. As with the existing social welfare system, a social solidarity fund carries administrative costs, which also need to be funded.

3.24 The ESRI identified 5 main groups among the bottom 4 deciles for which the Basic Income scheme without a social solidarity fund would involve losses: single employees, single unemployed, lone parents, single retired and the "other" category. The proposed Social Solidarity Fund eliminates the incipient losses for the single retired and reduces them for the other groups. The single most important cause of the remaining losses is the reduced benefit payable to those aged under 21. This affects some young single employees and young single unemployed persons, and accounts for almost two-thirds of the large losses among the bottom 4 deciles. While temporary compensation for those currently aged under 21 is envisaged, the analysis shows the long-term impact on those falling into this age group. Differences between the basic benefit rates, which are linked to the commonest rates of welfare payment, and the higher personal and child rates for certain lone parents under the conventional system are the second most important factor. While some such losses are compensated for by the proposed €12.70 per week payment, lone parents living with their own parents, or widows with an adult child in employment would not qualify for this. Other less numerically important factors include the fact that the conventional system gives both tax allowances and welfare payments to employed lone parents, while the Basic Income system replaces both with a single payment: even if this includes the extra €12.70 per week there are losses for a high proportion of this small group.

Table 3.24: Impact of a Basic Income (With Compensation Mechanisms) on Disposable Incomes for Families of Different Types

	Loss > €0.63 p.w.	No Change	Gain > €0.63 p.w	All
Family Type	**Numbers of tax units (thousands)**			
Single Employed without Children	419.9	17.1	179.1	616.0
Single Unemployed without Children	20.9	38.3	47.4	106.6
Employed Lone Parent	21.6	0.0	5.3	26.9
Non-Earning Lone Parent	14.7	27.5	39.9	82.1
Single Retired Tax Unit	36.1	64.9	129.2	230.2
Single Earner Couple without Children	44.2	0.6	60.5	105.3
Single Earner Couple with Children	63.2	1.8	119.9	184.9
Dual Earner Couple without Children	93.7	1.2	16.4	111.3
Dual Earner Couple with Children	102.4	0.4	55.7	158.5
Dual Earner Couple with Relative Assisting	5.3	0.0	13.6	18.9
Non-Earning Couple (>= 1 UE) no children	0.3	0.6	6.0	6.9
Non-Earning Couple (>= 1 UE) with children	3.2	0.0	22.0	25.2
Retired Couple	23.0	26.6	70.5	120.1
All Other Tax Units	26.2	20.5	150.3	197.0
All	874.8	199.4	915.6	1,989.9

3.25 Table 3.24 gives a broader perspective on gains and losses by family type across the whole income distribution. It shows that gains are particularly likely for those who are retired (both singles and couples) and for unemployed couples, as well as for single earner couples, though substantial numbers of losers are also found in the latter group. Those in the "other" category, which includes many of those ill or with disabilities are also likely to gain. Single employees and dual earner couples with or without children remain likely to lose. The bulk – 86% of losers come from the ranks of the employed and over 60% of the employed lose under the Basic Income proposal examined. Non-earning lone parents are about equally likely to gain or lose; but employed lone parents are more likely to lose than to gain.

3.26 Table 3.26 (overleaf) focuses on gains and losses by family type over the whole distribution, but shows the distribution across different levels of gains or loss. Most of those who gain or lose (over 80% of losers and two-thirds of gainers) do so by more than €12.70 per week. Losses for single employees are likely to be substantial. Over 300,000 such employees would, on these estimates, lose more than €12.70 per week. This is almost half of all those set to lose an amount that great. However, because the single employed is such a large group and a minority do gain, they also account for a smaller but still significant proportion – about 20 per cent - of those whose income rises by more than €12.70 per week. For single or dual earner couples a particularly high proportion of those who gain or lose generally do so by more than €12.70.

3.27 A particularly noteworthy category of losers are single young workers starting work. They would have to pay tax of 48% on all earnings, but receive a reduced rate of Basic Income. For example, under the modified Basic Income proposal examined, an 18-year old only receives 42% of the standard rate of Basic Income. This means that an 18-year old starting work at the minimum wage (c €9,700 per annum) would lose almost 25% of his/her net income including Basic Income compared with the position under the existing tax/welfare system. Similarly, 18-year old employees on, say, €12,000 – 15,000 per annum would lose over a quarter of net income. For such 18-year old workers to maintain the same level of net income under a Basic Income system as they currently have, they would need a pay rise of some 50%. On the other hand, this may tend to create an incentive for young people to stay in education – which is very much in line with Government policy as it enhances their quality of life and employability in the longer-term - and reduce the incentive to leave school early and take up low paid jobs. On this basis, such disincentive effects may not be undesirable.

Table 3.26: Impact on Families of Different Types of a Basic Income with Compensation Mechanisms

Loss or gain in € per week	Loss of			No Change	Gain of			All
	€12.70 or more	€6.35 to €12.70	€1.27 to €6.35		€1.27 to €6.35	€6.35 to €12.70	Over €12.70	
Family Type								
	Numbers of tax units (thousands)							
Single Employed without Children	335.2	49.1	28.6	26.6	26.7	27.1	122.7	616.0
Single Unemployed without Children	17.9	1.3	1.5	40.1	10.9	15.4	19.4	106.6
Employed Lone Parent	18.9	2.0	0.7	0. 0	0.8	0.9	3.6	26.9
Non-Earning Lone Parent	9.2	2.9	2.6	29.5	2.5	2.0	33.4	82.1
Single Retired Tax Unit	15.1	7.1	13.9	66.8	49.5	46.5	31.2	230.2
Single Earner Couple without Children	40.8	2.1	1.0	1.6	1.5	3.0	55.5	105.3
Single Earner Couple with Children	54.3	4.3	4.5	1. 9	5.0	5.0	109.9	184.9
Dual Earner Couple without Children	90.0	1.6	2.0	1.3	0.7	2.3	13.4	111.3
Dual Earner Couple with Children	87.2	8.9	6.1	1.8	4.0	3.6	46.9	158.5
Dual Earner Couple with Relative Assisting	4.4	0.0	0.5	0.4	0.4	0.3	13.0	18.9
Non-Earning Couple (>= 1 UE) no children	0.3	0.0	0.0	0.6	0.0	0.3	5.7	6.9
Non-Earning Couple (>= 1 UE) with children	1.9	0.8	0.6	0.0	1.0	0.4	20.6	25.2
Retired Couple	19.0	2.2	1.7	28.2	3.9	3.0	62.1	120.1
All Other Tax Units	12.5	1.9	11. 8	21.1	22.2	11.9	115.5	197.0
All	706.6	84.1	75.5	220.0	129.0	121.8	652.9	1,989.9

Impact on the incentive to work

3.28 In general, people tend to make themselves available to work provided there is a financial incentive to do so. The difference between income when in paid employment and when not in paid employment is important in this context. The concrete measure used is a "replacement rate", which summarises the balance between in-work and out-of-work income by taking out-of-work income as a proportion of in-work income:

$$RR = \frac{Out\ of\ work\ family\ disposable\ income}{In\ work\ family\ disposable\ income}$$

3.29 Thus, an individual might find that family net income when he or she is unemployed is €120 per week, but that on taking up a particular job that family net income would rise to €200 per week. The replacement rate in this situation would be 60%. The key issue is how this income difference is changed by the introduction of a Basic Income and the different effects on different groups within the workforce.

3.30 An assessment of the impact of the proposal on financial work incentives for the potential labour force must consider not only those currently in employment, but also those who are unemployed and those who classify themselves as fully engaged in "home duties". The studies that were undertaken considered two aspects in relation to financial incentives to take up work - replacement rates and changes in marginal tax rates. For those who are unemployed and in receipt of unemployment assistance or benefit, Basic Income provides a substantial drop in the incidence of replacement rates over 70%. This provides an improvement in the financial incentive to work for the unemployed.

3.31 The studies showed that about 1% of those who are currently employees face a replacement rate of over 100 per cent, and this is eliminated by the Basic Income system, with no one then facing such a disincentive. However, more employees see their replacement rates rise than fall. Focusing on what would generally be regarded as high replacement rates, under the conventional system just over 15 per cent of employees face a replacement rate of over 70 per cent. Under the Basic Income scheme this rises to 18-19 per cent, so the number of employees facing such high replacement rates rises by between 30,000 and 40,000. For those who are unemployed and in receipt of unemployment assistance or benefit, the incidence of replacement rates over 70 per cent falls, from about 16 per cent to 6-7 per cent, so the number of unemployed people facing those replacement rates falls by about 12,000.

3.32 For those (almost exclusively women) who classify themselves as "engaged in home duties", however, once again replacement rates rise more often than they fall. The percentage facing replacement rates of more than 70 per cent goes up from 36 per cent to close to 50 per cent, so the number of individuals in home duties and facing replacement rates of over 70 per cent rises by about 60,000. None of these results proved sensitive to a 3 percentage point exogenous reduction in the tax rate required to finance a Basic Income. Married women were seen to be particularly likely to see their replacement rate rise, with one-third of married women currently employees or in home duties having their replacement rate rise by 10 percentage points or more. For many of these, entitlement to a full personal Basic Income payment would mean their income when not in paid work would be a good deal higher than under the current tax and social welfare system.

3.33 A sizeable proportion of single women and men with second level education qualifications or above would also see their incentive to participate decreased. However, these groups are relatively unresponsive to such incentives, suggesting a very limited impact on their labour supply.

3.34 The financial incentive to work for men with lower levels of education does improve for some of the group. However, the removal of the "work test" in the present system could be regarded as tending to disimprove their incentive to seek work. This tentative conclusion in the study, must, of course, be set against the inherent tension in any social security system between the principle on which it is based – income support is paid to people who are not currently (temporarily) working or are unable to work: resumption of paid working brings the entitlement to an end – and the creation of incentives to resume paid work for those for whom the difference between social security and paid incomes may be small or negative. Reform of the Irish social welfare system over recent years and provision of active welfare supports such as the Back To Work Allowance have substantially tackle the unemployment trap phenomenon, but problems still remain, particularly for low-skilled people with large families.

3.35 On the other hand, it has been argued that Basic Income would facilitate increased innovation and entrepreneurship and greater participation in adult education for this group. It has also been argued that it would facilitate choice, particularly relevant for women with children and other caring responsibilities, regarding the extent to which they participate in the labour market.

3.36 Replacement rates seek to capture the financial incentive to take paid employment, but changes in marginal tax rates could also affect decisions about working more rather than less hours. The impact on top rate taxpayers was seen to be sensitive to the exact figure for the income tax rate under a Basic Income system. However, the main impact of the change to the Basic Income scheme was on the 57 per cent of taxpayers with tax rates of below 30 per cent under the conventional system, whose marginal tax rates would rise to about 50 per cent under the Basic Income system. The move to a Basic Income system would also reduce the tax-cum-benefit withdrawal rate facing the small proportion of cases affected by FIS withdrawal under the conventional system.

3.37 These findings in the studies lead to a conclusion that a fall in labour supply is more likely than an increase. The main impact of a change to a Basic Income scheme was found to be on taxpayers with marginal tax rates less than 30% under the conventional system, whose marginal tax rates would rise to about 50%, or more in certain circumstances, under a Basic Income system. This increase could apply to 57% of taxpayers. Changes in marginal tax rates can affect decisions regarding hours of work, decisions to work overtime, to take on extra hours or to opt for part time work. It should be noted that in a Basic

Income system each person receives a tax-free payment from the State. This means that their average tax rate could, and in many cases would, be lower while their marginal tax rate would be higher.

Impact on migration patterns and the informal economy

3.38 Traditionally, net outward migration (or emigration) has been a strong feature in this country over the years. The situation has been well documented. People tended to leave the country during slow periods of economic growth and times of high unemployment because of the limited options available to them. Generally, this group included both low and high skilled workers. This trend has been completely reversed in recent times due to the strong economic performance of the country. In fact net in-migration was approximately 22,800 people in 1998, 18,500 in 1999, 20,000 in 2000 and 26,300 in 2001. Today, Ireland attracts people from within the EU and also people from outside the EU including migrant workers and asylum seekers.

3.39 The key issues in regard to migration are whether the introduction of a Basic Income system would substantially affect the scale of migration flows and how this would in turn impact on the composition of the labour force. In terms of impact on migration, the Studies concluded broadly speaking that a Basic Income scheme could increase the attractiveness of Ireland for low skilled migrants who might depend on such an income, while reducing after-tax income for those nearer the top of the earnings distribution. However, the analysis of the evidence on the sensitivity of migration to financial incentives suggests that the introduction of Basic Income would in the short term have a very small impact on the net migration flow. It could have a more significant impact on the composition of gross inflows and outflows. However, the entry of poorer countries into the EU could lead to more significant immigration in the longer term.

3.40 As far as the informal economy is concerned, a Basic Income scheme could encourage some people to move from the unofficial economy into regular employment. Quantifying the scale of this effect is problematic, since it is also acknowledged that the incentive to conceal income could increase for a large number of those currently in employment and self-employment. The net effect would therefore be unclear. However, it has been argued that, as Basic Income is a simpler system to administer and monitor, the risk of detection for concealment of income could increase under Basic Income. Whether this is so or not, it is not clear in any event that the simplicity argument continues to hold good for the modified Basic Income proposal on which debate in Ireland has focussed in recent years.

Impact on self-employment

3.41 The issue of the potential impact on *self-employment* also arises. Why might a Basic Income stimulate self-employment? Perhaps the best parallel here is with schemes in the existing system (such as the back-to-work allowance), which allow individuals to retain a part of their benefit for a limited period while taking up employment or starting self-employment. The benefit thus provided can act as a subsidy towards small start-ups which might not otherwise be able to provide any income in the early years. Under the existing system, individuals must apply to be considered and only a limited number of individuals qualify for such schemes, but they have the advantage that tax rates on the income generated would tend to be low. Under the Basic Income system, there would be no limitation as to the numbers using the basic benefit to undertake a small business idea, but the initial tax rate on the income generated would be higher. Typically, the income position of a small start-up would be higher under the Basic Income system; but so too would the income of the same individual in low-income employment. Whether the shift to a Basic Income system would stimulate such start-ups depends not only whether it would improve the likelihood of being able to survive the start-up period, but also on its longer-term impact on the reward for undertaking the risk, relative to other, less risky options. These influences work in opposite directions.

Impact on labour supply

3.42 **Labour supply** relates to the number of people available for work and the total work hours they are willing to offer. This includes those people who are already in paid employment and also people that are unemployed (as well as including people who are unpaid and work in the home). The supply of labour is influenced by many different factors, including the overall economic situation, different participation rates amongst men and women and amongst different age groups, the total size of the population and the portion of the population in economically active age groups and peoples perception of the financial incentive to take up employment.

3.43 The studies indicated that the potential impact of a Basic Income scheme on behaviour in the labour market relates more to the supply then to the demand side. Irish evidence suggests that the labour force participation of women, and in particular married women, tends to be significantly more responsive to financial work incentives than that of men. It has been shown that a substantial number of married women who are currently employees or working full time in the home would see a significant increase in their replacement rates. The incentive to participate in the paid labour force for this particularly responsive group could therefore be significantly reduced by a Basic Income scheme. This combines with a reduced willingness to work overtime and/or some inclination to reduce the hours worked.

3.44 Given the introduction of a Basic Income scheme in a context where the labour market was already very tight, a reduction in labour supply could add to already considerable pressure on wage levels and potentially on inflation and competitiveness. However, uncertainty about labour supply responses, and in particular about the potential for counter-balancing inward migration, makes the overall impact of a Basic Income scheme on the labour market very difficult to assess. What we can say is that a fall in labour supply is more likely than an increase.

3.45 Proponents of Basic Income would not see a short-term fall in labour supply as necessarily a bad thing for the individual or for the economy in the longer-term. A fall in labour supply can be seen as a consequence of greater choice and personal freedom under a Basic Income system: people are freer to balance family responsibilities, paid work, further education and leisure to maximise their – and society's – long-term well-being, rather than being constrained to accept low-paid, low-skilled work with little prospect for development or advancement. The clear global labour market trend is towards greater prevalence of atypical and part-time work patterns, which Basic Income can further support. By enabling greater flexibility for individuals who are freer to make choices that suit their personal circumstances, Basic Income may reduce the supply of labour for conventional full-time work patterns, but still would result in an overall increase of labour supply in a more flexible market.

Impact on labour demand

3.46 At a basic level, conventional economic theory tells us that when wages are at a high level, employers demand for labour decreases, while conversely when wages are at a low level, employers demand for labour increases. This simple idea does not tell the whole story. The implications of the introduction of a Basic Income system are not as pronounced for labour demand as they are for labour supply. The analysis undertaken for the Steering Group had highlighted that the introduction of a Basic Income system would most likely to increase both the supply of and demand for people on low wages and those with low skills and reduce the supply and demand for those with high skills – this arose from the abolition of the PRSI ceiling. However as the ceiling on employer's PRSI has since been abolished, this conclusion is no longer relevant to our analysis of the possible impact of a Basic Income system.

3.47 Under previous circumstances also, the introduction of a Basic Income system in Ireland may have encouraged some employers to use it as a subsidy for low waged labour. The existence of the *national minimum wage* (€5.97 per hour at the present time but to be increased to €6.35 per hour from October 2002) means that the Basic Income payment could not be used to subsidise low-skilled labour.

Impact on retention in Education

3.48 The central issue in this regard is whether a move to a system of Basic Income would encourage people to take the option of staying in education (second or further education), or return to education, rather than make themselves available for work. A Basic Income may prove to be sufficient enough to convince people that they can enter formal courses to either learn new skills or improve on existing ones. If this was the case, it could result in a temporary reduction in the labour supply. This reduction could include both low-skilled and high-skilled labour. In the long term, this could, however, result in a more skilled workforce and greater national competitiveness.

3.49 Conversely, it could act as an incentive to leave formal education as people may feel that it is unnecessary because they will receive a guaranteed income. Speculating on this behaviour is difficult as it relates to peoples' preferences and perceptions. Therefore it is difficult to predict the outcome with any degree of certainty. However, Basic Income would increase the opportunity for people to participate in education throughout their lives.

3.50 The net effect of these contradictory trends is difficult to predict.

Impact on gender distribution of income

3.51 One of the claims made about Basic Income is that it increases the *financial independence of women.* There are two major features of the Basic Income system which support this claim. First, women who are currently treated as "qualified adults" in the social welfare system would receive a higher payment than at present, and receive it directly in their own right. While the current system allows for split payments, this is somewhat unusual. The change could be seen as increasing the financial resources of many such women, and potentially increasing the extent of women's control over those resources. Second, for married women described as "engaged in home duties", whose husbands are in employment, the change in system would bring about a direct cash payment. The impact on the net financial resources of the couple may be positive or negative, depending on their specific circumstances.

3.52 There are, however, other perspectives on the financial independence of women, which would stress the role of employment in providing women with longer-term economic independence. The combined impact of the basic benefit and the basic benefit tax rate is to raise the replacement rate for a large number of women engaged in home duties, and for a substantial number of women in employment. As previously discussed, a likely consequence is that fewer women will choose to participate in the paid labour market. This may have negative long-term consequences for women's financial independence. Those wishing to re-enter the labour market at a later date would tend to find the wage which they could command would be adversely affected, with the size of the impact depending on the length of the period of withdrawal.

Impact on the Social Economy

3.53 The Social Economy refers to that part of the economy that is not accounted for in the national accounts. It includes all the voluntary activity that occurs in the country that goes unrewarded in terms of payment. This obviously includes work in the home and community activities. A wider definition of the social economy encompasses that aspect of economic activity that does not get included in national accounts measurement because no market exchange takes place. That is, exchange occurs through a voluntary mechanism that may or may not involve reciprocal exchange. The Social Economy has been defined by the *Partnership 2000 Working Group* as having the following attributes:

- operating to benefit the community and individual members;
- ownership within a community, and responding to market demand regardless of source of income, and a focus on the economic or social development of a community or community of interest;
- providing for employment experience and opportunities which are sustainable, but which might nonetheless be dependent on state support.

3.54 The proposed Basic Income scheme would involve net payments of about €32 per week per person engaged in "socially useful work", over and above the

Basic Income payment itself, which would not be linked to work status. An issue here is whether individuals would have a greater incentive to participate on such schemes under a Basic Income system or under a conventional system. **Pathways** argues that the most dynamic effects of Basic Income will be manifested in relation to the social economy. Activity in the social economy includes home activities and community activities. While home activities will involve some implicit if not explicit arrangement between individuals, community activity stems from volunteerism. Community activity can therefore be viewed as having elements of a public good i.e., something from which everyone benefits (and cannot be excluded from benefiting).

3.55 Why would the introduction of a Basic Income encourage volunteerism? To the extent that individuals withdraw from labour market participation or reduce their hours of work, they would have additional time available for other activities. This could include voluntary and community sector activities, or time spent on caring for the elderly and children in the individual's own family. The net effect on the former may be positive, though the extent is uncertain. The net effect on the latter is also likely to be positive, as we have seen that women with children are among those most likely to withdraw from the labour market in response to the changed incentives provided by a Basic Income. The absence of an 'availability for work' condition could also be helpful in fostering volunteering.

3.56 Evaluating the overall impact of a Basic Income depends on judgements not only on the likely scale of the impact on such activities, but also on the social value attached to them. The importance of voluntary activity has been emphasised in the Government's White Paper – **Supporting Voluntary Activity** – published in September 2000. The White Paper recognises voluntary activity as an essential sign of a society where people are concerned for each other. It can range from the most informal of activity within communities to highly formal activity within the context of major national service provision and advocacy organisations. In the White Paper, the Government explicitly pointed to the importance of voluntarism as a vital element of democracy. A strong democracy enhances and protects the capacity of citizens to participate directly in social life, create their own social movements to address issues that concern them and speak directly on issues that affect them. In turn, participation in voluntary activity gives the citizens an enlightened understanding of public affairs, insights into the life of society and first-hand experience of the practical work of running an organisation, developing policies and proposals for action and achieving consensus moving forward.

3.57 The White Paper also recognises the very specific role of the Community and Voluntary sector in meeting social need and in tackling poverty and disadvantage. The size of market activity is not the sole criterion for assessing our national well-being. Non-market activity is essential in providing a quick, direct and effective response to social needs. On the other hand, market activity influences not only the supply of commercial goods and services, but also determines the size of the tax base available to fund essential public services.

3.58 Insofar as voluntary organisations have paid staff, of course, then those staff face the same varying range of incentives that any employee would face under either conventional or Basic Income systems and Basic Income has no special impact on employment in the sector.

Impact on growth and national competitiveness

3.59 The Irish economy has grown rapidly over recent years. It has been one of the fastest growing economies in the EU through the 1990s and into the new millennium. It is widely accepted that the primary reasons behind this growth are:

- Increase in Productivity capability
- Increase in international Competitiveness
- Social Partnership approach to policy development
- Good Fiscal and Public Finances Management
- Benefits of EU membership
- Impact of improved work incentives through tax and social welfare reform
- Ability to attract Foreign Direct Investment

3.60 These key elements have contributed to making the Irish economy one of the most dynamic in Europe. There are however challenging times ahead and while the economy is still forecast to grow at a faster rate than the EU average in 2002, Ireland is not immune to downturns in the global economy. Therefore it is imperative that the economy is in a robust state as possible to cope with potential problems and maintain employment opportunities and prosperity for our people.

3.61 Gross National Product (GNP) is the key measure of growth of the economy. Growth in GNP is a function of favourable movements in productivity, the Employment Rate, the Dependency Rate and the Participation Rate. Of these elements, the main contributor to GNP in recent years has been employment growth and productivity or technological growth, both driven by foreign direct investment, which in turn has been attracted by a favourable investment and taxation climate.

3.62 The Employment Rate is influenced by both supply and demand side factors, as discussed earlier. Also we have seen that Basic Income could lead to decreased female participation in the labour force. In recent years the growth of the labour Participation Rate has reflected an increase in women entering the workforce. Therefore a decline in the participation rate would have an effect on this element of growth. The effect would probably be once-off. The Dependency Rate, relative to other EU countries, is improving and is likely to continue to do so in the future.

3.63 Assessing the broader impact of a Basic Income scheme on growth and competitiveness is, however, quite difficult. The Basic Income proposal could tend to reduce the supply of labour and output might then be expected to be somewhat less than under conventional tax options. If this were the outcome, it could have implications, inter alia, for the tax rate necessary to fund the Basic Income model.

3.64 CORI and other supporters of Basic Income argue that it could improve growth by promoting a more flexible labour market, a more stable macro-economic environment and by generating a fairer distribution of income. One argument advanced in this regard is that future economic growth will depend an adaptable and flexible labour force, open to new ideas and new ways of working. For the individual worker, however, this equates with greater insecurity and risk. Basic Income can counteract these negative aspects, underpinning the individual's propensity to be adaptable by breaking the link between an unsuccessful choice, or a risk that materialises and total income. However, the negative effect on growth resulting from an increase in the marginal rate of direct taxation is judged by the ESRI to be the most significant channel of influence, with the most likely outcome being that aggregate employment would fall or remain constant, while average productivity and output would be less than under conventional options.

3.65 The issue of competitiveness is about whether Ireland's products and services are competitive vis-à-vis other countries in the global marketplace. In order to maintain competitiveness companies must control costs, produce quality products and monitor competitor movements. Exported goods and services have to compete on different bases in markets abroad. Competitiveness is also effected by the trading environment and other macroeconomic factors, for example exchange rates movements.

3.66 In **Pathways to a Basic Income**, the authors proposed that Basic Income would improve Ireland's international competitiveness in two ways. Firstly, it was argued that the replacing of employer PRSI with a Social Responsibility Tax would lower costs and enable employers to take on more workers and/or increase investment. Secondly, the redistribution of income will be more equitable and also lessen pressure for wage increases thereby supporting the Social Partnership approach. However, in this regard, the ESRI study concluded that 'an overall reduction in labour supply as a result of a shift to the Basic Income scheme would add to the already considerable pressure on wage levels and potentially on inflation and competitiveness'.

Summary of anticipated impact

3.67 It is clear from the work that has been carried out that the introduction of the Basic Income system would require a single effective tax rate on all personal income of around 48% (based on data relating to the tax base in 1999) on the basis of a static analysis. If the dynamic effects summarised above resulted in a decline in labour supply and output, a higher tax rate would, however, be necessary. If the event that these effects did not materialize and the economic growth of recent years were continued, then a lower tax rate would be required to implement the model studied. The tax rate required clearly also depends on the precise rate of Basic Income chosen.

3.68 This system would have a substantial impact on the distribution of income in Ireland in that, compared with conventional options, it would on average.

- Improve the incomes of 70% of households in the bottom four income deciles while 16% would gain more under conventional options.

- Raise more than half of those who would be below the 40% poverty line under conventional options above this poverty line.

3.69 On the basis of this static analysis, these impacts would be achieved without any resources additional to those available to the conventional options. However, there is a considerable element of uncertainty in predicting the dynamic impact of Basic Income. The ESRI assessment that the most likely dynamic is for aggregate employment to fall or remain constant, and average productivity and output to be less, signals risk that moving to the Basic Income approach outlined would, over time, involve higher costs than conventional options – thus requiring a higher tax rate on personal income than the 48% estimated in the absence of dynamic effects. However, the evidence on which this conclusion is based is, as acknowledged by the ESRI, limited, because of the inherent difficulty in assessing the dynamic impact of the possible introduction of Basic Income.

3.70 While the short-term outlook for the economy is subject to ongoing uncertainty, Ireland retains the potential for comparatively strong growth in the medium term, provided international growth is maintained and we maintain our competitiveness on world and domestic markets. There is a risk that Basic Income could reduce future economic growth. This arises because of the possibility that aggregate employment would be lower than under conventional options or remain constant while average productivity and output could be lower than under conventional options as a result of:

- some withdrawal of labour from the labour force, especially married women with children

- less willingness to work additional hours

- increased immigration of lower skilled workers and emigration of higher skilled persons, resulting in lower employment, productivity and output.

3.71 Under a Basic Income system there would be relative losers and relative gainers. People in higher income groups would face increased taxes. So would a number of people in lower earned incomes – all taxpayers would face a marginal tax rate of 48%, whereas at present the effective 48% marginal tax rate only applies to taxpayers whose earnings bring them over the threshold at which the 20% rate gives way to the 42% rate (again assuming the full PRSI rate applies): the extent to which this would be offset in whole or in part by their Basic Income would depend on the precise rate of Basic Income applied: but a higher Basic Income could need a higher tax rate. It can be argued that such a marginal tax rate on all incomes may encourage emigration to a country with lower tax regimes. Given the current effective marginal tax rate of 48% for many taxpayers, the evidence for this is weak. There is no doubt that Ireland has seen considerably emigration over many years, but the booming economy of recent years has attracted many high income migrants, including returning emigrants, and the behavioural impact, if any, of our current tax/welfare systems on these patterns of migratory flow is not clear. It can also be argued that people who gain in the lower income deciles may be encouraged to stay in the country because of the income guarantee – and possible substantial income increase in some cases - that Basic Income would provide. People from outside the country and indeed outside the EU may be attracted by the income guarantee also.

Chapter 4

Summary and Conclusion

4.1 As will be seen from the previous chapter, there is a considerable element of uncertainty in predicting the likely dynamic effects of the introduction of a Basic Income system. The analysis undertaken for the Steering Group has shown some of the complexity of the forces at work.

4.2 The Basic Income concept and the question of its application to Ireland have been subject to much debate and consideration in recent years. Debate has generally focused on the potential advantages and disadvantages and also the very feasibility of such a system, given the high income tax rates that would be required to fund it and its possible behavioural implications for the labour market, tax compliance, migration and national competitiveness.

4.3 In its purest form, Basic Income may be defined as an unconditional income granted to each individual irrespective of personal circumstances. The Basic Income payment is tax free and all other income is taxed. The desirable level of Basic Income is a level sufficient to allow individual recipients to live with dignity and exercise real life choices. The level can variously be expressed as being at or above a determined poverty line, or equivalent to an 'adequate' social welfare rate, or a percentage of average employment incomes. Thus, introduction of the Basic Income concept would involve very considerable changes to our established Tax and Social Welfare systems.

4.4 A range of perceived attractions and perceived disadvantages have been put forward in relation to the application of Basic Income in Ireland. The advantages are seen as including transparency and simplicity, removal of poverty traps and unemployment traps, giving an independent income for all and creation of a fairer and more cohesive society. On the other hand, in the ESRI's analysis, Basic Income is seen as having major negative dynamic impacts on the economy, essentially associated with the need to apply a single income tax rate of some 48% on all income in lieu of today's 20%/42% plus 6% PRSI regime, thus leading to the likelihood that aggregate employment would fall or remain constant, while average productivity and output would fall. For its critics, Basic Income would cause an overall reduction in national income and involves moving away from the current progressive tax system to an inherently unfair high flat rate tax system. As we have seen however, the possible impact on the actual or effective tax rates that individuals would face is more complicated than the nominal or marginal tax rates would suggest and – depending on the precise assumptions which underpin a comparison - may not be all that different in many cases.

4.5 The extent to which the benefits can be achieved in practice and the disadvantages outweighed or avoided depends upon the features of any Basic Income scheme adopted and the behavioural response to its introduction. In general it can be said that substantial increases in taxation (or reduction in social welfare benefits, or other expenditures) would be needed to finance Basic

Income. Our analysis of the concept needs to consider, not just the costs and benefits in isolation, but the choices arising. The impact on behaviour to be considered would include, for example, a lessening of the incentive for some groups, such as married women with children, to take up paid employment, but greater choice regarding the balance between caring roles and paid employment. The assessment of a Basic Income option must also take account of its likely impact relative to alternative uses of the resources involved, including through development of more conventional tax/welfare policies and structures, or their development in alternative directions, for example through making tax credits refundable.

4.6 A Steering Group on Basic Income was established in line with the commitment in **Partnership 2000 for Inclusion, Employment and Competitiveness** to examine the issues involved. It is clear from the work that has been carried out under the aegis of the Steering Group that the introduction of the Basic Income system would require a single tax rate on all personal income of some 48% on the basis of a static analysis. The Steering Group also concluded that further economic growth since 1999 would enable this estimated tax rate to be reduced further for 2001. If the dynamic effects summarised above resulted in a decline in labour supply, productivity and output, a higher tax rate would, however, be necessary. If these effects did not materialize and the economic growth of recent years were continued, then a lower tax rate would be required. The required tax rate would also change depending on the precise rate of a Basic Income payment introduced. In this regard, there has been substantial increases in social welfare rates since the studies were undertaken: the comparable 'base' social welfare rate in 2002 is some 25% higher than the assumed rate the Steering Group projected for 2001. On the other hand, the economy – and the tax base - has also seen very considerable growth over the 1999 data available to the Steering Group. The population of the State has also grown in the meantime and this growth has been in excess of expectations. The net effect of these trends on the tax rate that would be required in a dynamic situation post introduction of a Basic Income system is difficult to predict.

4.7 The Steering Group found that the Basic Income system studied would have a substantial impact on the distribution of income in Ireland in that, compared with conventional options, it would on average

- Improve the incomes of 70% of households in the bottom four income deciles while 16% would gain more under conventional options; and

- Raise more than half of those who would be below the 40% poverty line under conventional options above this poverty line.

4.8 On a static analysis, these impacts would be achieved without any resources additional to those available to the conventional options. However, there is a considerable element of uncertainty in predicting the dynamic impact of Basic Income. The ESRI opinion that the most likely dynamic is for aggregate employment to fall or remain constant, and average productivity and output to be less, signals risk that moving to the Basic Income approach outlined would, over time, involve higher costs than conventional options – thus requiring a higher tax rate on personal income than the 48% estimated in the absence of dynamic effects. However, as indicated in the ESRI report itself, the evidence on which this conclusion is based is very limited. On the other side of the debate, it can equally be argued that the dynamic impact of the introduction of Basic Income would have positive effects on employment and output. While the short-term outlook for the economy is subject to ongoing uncertainty, Ireland retains the potential for comparatively strong growth in the medium term, provided international growth is maintained and we maintain our competitiveness on world and domestic markets. The issue for consideration is whether there is a risk that Basic Income could reduce future economic growth, because of the possible negative effects on aggregate employment and average productivity and output, as assessed by the ESRI; or, on the other hand, whether the dynamic impact of its introduction would more than outweigh this risk.

4.9 The positive negative effects put forward reflect the impact of financial incentives to work, with some improvement in the financial incentive to work for the unemployed, as measured by replacement rates. But the incidence of high replacement rates rises for those in employment and women engaged in "home duties". These findings are not particularly sensitive to the tax rate required to finance the Basic Income. The marginal direct tax rate for those in employment is roughly constant for top rate taxpayers, but rises by about 20 percentage points for the majority of those in employment. Combining these findings with the available evidence on labour supply, we can conclude that a fall in labour supply is more likely than an increase.

4.10 The impact on net migration is thought to be small, though it may increase in future years, and the impact on the composition of overall flows may be more significant. One possible outcome is that aggregate employment would fall or remain constant, while average productivity and output could fall. The longer-term impact on growth is even more difficult to assess, but the most significant channel of influence identified (the impact of the marginal direct tax rate on growth) seems likely to be negative. A rise in the time allocated to home duties and voluntary and social economy activities can be expected insofar as participation in the paid labour market falls.

4.11 On the other hand, it has been argued that Basic Income could facilitate increased innovation and entrepreneurship and greater participation in adult education. In that event, economic growth prospects would be boosted, with positive effects on the demand for more highly skilled labour and the prospect of a lower average tax rate to fund the system, with more positive effects on labour force participation.

4.12 However, it is also argued that Basic Income would facilitate choice, particularly relevant for women with children and others with caring responsibilities, regarding the extent to which they participate in the labour market.

4.13 It can be seen that many aspects of the possible dynamic and long-run effects of a Basic Income system are only capable of being assessed on the basis of indicative material and cannot be presented with certainty. Some of the design features are, however, already known to the Irish policy system through the Child Benefit programme, which has some of the Basic Income features for a specific grouping in the population, and through Supplementary Welfare Allowance, which provides a minimum safety net available to all claimants without other means or income, but without the guarantee or unconditionality requirements. This, of itself, does not provide sufficient evidence to reach conclusions about a more comprehensive approach.

4.14 The **Agreed Programme** of the new Government formed in June of this year reiterates[18] our commitment to sustaining economic growth and maintaining full employment in the Irish economy. We are committed to keeping the public finances in a healthy condition and will keep down personal and business taxes in order to strengthen and maintain the competitive position of the Irish economy. This will generate the resources needed to implement the revised National Anti-Poverty Strategy, including the reduction of consistent poverty to below 2%. Over the next five years, the Government's priorities with regard to personal taxation include the achievement of a position where all those on the national minimum wage are removed from the tax net and 80% of all earners pay tax only at the standard rate (currently 20%).

4.15 The purpose of this Green Paper is to bring the issues to the attention of the wider community and to encourage debate. This debate should include issues of design and implementation of tax and welfare policy to increase the prospects of achieving the positive benefits of Basic Income, while seeking to minimise those effects that might be regarded as less desirable. That debate continues in such fora as the NESC and in discussions under the PPF looking at wider issues of tax and welfare policy, such as the Working Group on Refundable Tax Credits.

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