6. History and Recent Developments on Basic Income in Ireland

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Introduction

This short paper presents an overview of the history of basic income in Ireland together with recent developments. There is a particular focus on financial and economic analyses that have been carried out. An expanded account of most of these analyses is available in Ward (1998), (2006) and (2008). The paper does not attempt to summarise philosophical arguments relating to basic income, for example, Baker (1992), Healy and Reynolds (1995), Ryan (2009) and Mulligan (2012).

The paper starts with definitions of basic income and why it is of interest. The paper then summarises analyses that were carried out in the 1970s and 1980s; the 1990s and 2000s; and analyses that were carried out from 2010 to date. It concludes with a brief description of the two organisations which have been to the fore in analysing and advocating for basic income in Ireland.

Definitions

In its simplest or purest form basic income (sometimes called 'basic income guarantee') is a substantial, unconditional and tax free payment from the exchequer to all citizens on an individual basis and it is financed by a flat tax on all income. It replaces tax credits and tax allowances for those in paid employment and it replaces welfare payments for those who are not in paid employment. There are many variants of basic income, including:

Universal full basic income: a substantial income, which is usually set at a social welfare rate. It may be topped up by conditional payments for particular groups.

Conditional full basic income: a substantial payment which is conditional. This conditionality can be defined in different ways. For example, it may depend on being usefully engaged, i.e. being in paid employment, having a caring role, engaging in voluntary work, attending classes, engaging in work search activity etc.

Universal partial basic income: a universal but less than full payment, which may be topped up by conditional payments in respect of unemployment, disability, non-market work etc.

Conditional partial basic income: a less than full conditional payment, which may be topped up by further conditional payments in respect of unemployment, disability, non-market work etc.

While there has been some analysis of a universal partial basic income (Ward 1994), most analysis has focused on the first of these: universal full basic income.

The administration of basic income can also vary. Thus Child Benefit (which is a basic income for children) is paid directly to the parent or guardian. However, for those in employment, a Refundable Tax Credit would be another way of administering basic income. As some employees do not earn enough to use up the full tax credit – and therefore they do not benefit from increases in the tax credit, which are implemented in the annual budget – a Refundable Tax Credit would mean that the 'unused' part of the tax credit would be refunded to the employee.

Why basic income?

The motivations for considering basic income are varied (Ward, 1998). The main attractions are the following:

- Impact on the incomes of the less well-off
- Impact on autonomy/entrepreneurship and participation in the labour market
- Simplicity.

When assessing basic income or any other tax/welfare model, it is important to make explicit the principles or criteria against which any model or proposal will be assessed. According to Healy and Reynolds (1995), the following principles are relevant:

1 Nature and its resources are for the benefit of all

2 Income adequacy

3 Adequacy must be guaranteed

4 Penalty-free

5 Equity

6 Efficiency

7 Simplicity and transparency

8 Freedom.

Analyses carried out in the 1970s and 1980s

Dowling (1977) developed the first basic income scheme for Ireland. Under his full basic income proposal, all citizens would receive a non-taxable cash grant, with supplements for old age, widows and employees. He envisaged the elimination of all tax expenditures, social welfare payments and employee PRSI contributions. The scheme would be financed by a tax on employee incomes of 34 per cent and by an employers' payroll tax of 9 per cent. Farmers and self-employed were also included in the tax base. Dowling's paper initiated little debate about basic income (Callender 1989).

The First Report of the Commission on Taxation (1982) contained a cursory examination of basic income which it rejected, mainly on cost grounds. Similarly, the Commission on Social Welfare (1986), quoting the Report of the Commission on Taxation, rejected basic income on cost grounds, but also because basic income might represent a detour from the priority objective, according to the Commission, of increasing social welfare rates to adequate levels.

Honohan (1987) outlined a full basic income scheme whereby each adult of working age would receive an untaxed payment equivalent to Unemployment Assistance; elderly people would receive somewhat higher payments and smaller amounts would be paid in respect of children. Unlike Dowling, he envisaged that existing tax expenditures would be retained. He concluded that a tax rate of over 65 per cent on all personal income would be required to fund this scheme and that it should be rejected.

Analyses carried out in the 1990s and 2000s

Callan developed a full basic income model (Callan et al, 1994) which was very similar to that developed by Honohan. Like Honohan, he found that a tax rate in excess of 65 per cent on all personal income would be required to fund his model. In addition, he modelled the income distribution effect and reported that the outcome would not be advantageous for significant numbers of low income households. He concluded that basic income should be rejected.

Ward (1994) developed a model whereby children and the elderly would receive a full basic income, while those of working age would receive a substantial partial basic income, which would be topped up for the unemployed to the level of Unemployment Assistance. Further payments would be available to protect certain existing welfare entitlements. All tax expenditures would be abolished and a range of public expenditures, including supports for farmers, students and business, would be reduced or abolished. There would be no employer or employee PRSI and the scheme would be funded by a 50 per cent tax on all personal income. Ward reported that this model would bring benefits to many low and middle income households in terms of net income and work incentives. He cited the following advantages of this model over the current systems:

- More equity, both horizontal and vertical
- Improved incentives to recruit labour and seek work
- Greater simplicity and certainty.

Ward's proposal was developed into a full basic income proposal by Healy and Reynolds (1995) and Clarke and Healy J (1997). According to Clark and Healy (1997), their proposal ('Variant B') would involve:

- Full basic income payments to all adults and children

- Additional 'social responsibility' payments to preserve existing welfare entitlements

- Exchequer savings arising from the abolition of existing redundant income supports and administrative savings in the Department of Social Protection.

The scheme would be financed by a tax on personal income of 48 per cent and an employer payroll tax of 8 per cent.

Whatever about the attractions of a basic income system, vastly differing estimates had been put forward regarding the personal tax rate that would be required to fund a basic income system in Ireland. Estimates had ranged from 48 per cent (Clark and Healy 1997) to 65 per cent or more (Callan et al 1994). The Callan analysis had also cast doubt on the effectiveness of basic income in alleviating income poverty. If the higher estimates of the tax rate were accurate, then basic income would not be viable; if basic income could not address income poverty, then basic income might not be desirable.

The Government Green Paper on Basic Income (Department of the Taoiseach, 2002) attempted to address these issues – the required personal tax rate and the impact on income poverty. It also examined other impacts, including the impact of basic income on participation in paid employment. Underpinning the Green Paper analysis was a full basic income model with the following characteristics:

- Basic Income payments were paid unconditionally and payment amounts were aligned with social welfare rates, which they replaced

- All tax expenditures were abolished

- All farm income supports remained

- DIRT was set at 24 per cent

- Employee PRSI / levies were abolished

- A Social Responsibility Tax (replacing Employers PRSI) was set at 8 per cent; this money was used to provide 'top up' payments to certain low income individuals.

The Department of Finance estimate of the tax rate required to finance the proposal was 48 per cent on personal income together with an employer payroll tax of 8 per cent.

Under the aegis of the Green Paper, a distributional analysis was carried out using micro data (Callan et al. 2000b). Both the existing tax/welfare system and basic income were allocated similar resources for distribution. With regard to income poverty, the analysis showed that:

- 70 per cent of households in the bottom four deciles would gain from basic income, while 16 per cent would lose out

- Half of the individuals who would be below the 40 per cent poverty line under the conventional system would be brought over this poverty line by basic income.

Counterbalancing these gains, basic income would bring about many "losers" compared with the current system: this arises inevitably from the equality of resources for both systems referred to above. Thus, only 15 per cent of individuals in the top four deciles would gain under basic income; whereas 84 per cent would lose compared with the current system.

Two definitive results emerged from the Green Paper analysis:

- The earlier, very high, estimates of the personal tax rate required to finance basic income are no longer applicable

- Basic income can be effective in addressing income poverty.

The Green Paper analysed the likely impact of basic income on participation in paid employment. The Green Paper acknowledged that analysis of the issue is necessarily tentative and this has remained a contested area.

Typically, two statistics are employed in discussing the implications for labour supply, the Replacement Rate and the Marginal Tax Rate. The Replacement Rate (RR) is calculated as 'out of work family income' divided by 'in work family disposable income'. The RR statistic is relevant for those facing the choice between low paid employment and no work: the lower the value of RR, the greater the incentive to take up paid employment. Under basic income, the RR is lower for those out of work and for many in work on low wages; the main reason for this is that basic income is not withdrawn on taking up paid employment (Department of the Taoiseach, 2002). This means that basic income would increase the incentive for these people to participate in paid employment.

However, the availability of basic income to those who are not in paid employment also means that for many other people their RR rises; for example, according to the Green Paper, the percentage of women engaged on home duties facing an RR of more than 70 per cent would increase from 36 per cent to almost 50 per cent. It was argued that the reduction in RR (consequent on basic income) for those out of work and those on low pay is the relevant statistic and that RR is largely irrelevant for those on higher wages as they are generally not facing a choice between paid work and no-work (Clark, 2002). With regard to the rise in RR, consequent on basic income, for many women on home duties, it was argued that this diminution in the incentive to take up paid employment could lead to a reduction in participation in the paid workforce by this group (Callan et al, 2000b). On the other hand, it was argued that:

> "Those in home duties have chosen to carry out these important and necessary activities, and thus have chosen not to be in the labour force as conceived by economists. Clearly, the only reason to calculate the replacement ratio of adults in home duties is to figure out what price signals would force these persons into paid employment. Here a basic income is clearly contrary to this view, as it gives adults in home duties the financial support to make a decision on how they will contribute to society based on what they feel is best for their families, and not forcing them into taking up a low-paying job because of economic need" (Clark, 2002).

Another statistic, which is relevant for the supply of labour (the number of hours worked) is the Marginal Tax Rate (MTR). According to the Green Paper:

> "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 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."

It was also argued that tax rates and benefit levels have very limited impact on adult males and single females and that, in general, income effects overwhelm the substitution of leisure for income in these situations. However, it was agreed that an increase in the marginal tax rate could influence the number of hours worked by married females (Clark, 2002).

Arising from the divergent arguments about Replacement Rates and Marginal Tax Rates, the Green Paper set out two alternative 'forecasts' of the effect of basic income on labour supply. According to one view, married women would be less active in the labour force and this would be the main channel for a forecast fall in labour supply. According to another view, by enabling greater flexibility for individuals who are freer to make choices that suit their personal circumstances, basic income could reduce the supply of labour for full time work patterns, but still would result in an overall increase of labour supply in a more flexible market (Department of the Taoiseach, 2002).

Analyses carried out from 2010 to date

Social Justice Ireland published a study entitled *Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits* (Social Justice Ireland 2010). A refundable tax credit is one where, in the event that the income of an individual is insufficient to use up all of his or her tax credits (Personal Tax Credit, PAYE Tax Credit), the remaining credit is paid to the individual by means of a cash transfer. As noted previously, a refundable tax credit can be a mechanism for implementing a basic income.

It is worth noting that the proposal examined in the study was not a full and universal basic income. Rather it can be considered as a conditional and partial basic income, in that it was targeted at those over 23 years of age in employment for at least 40 weeks in the year and on low earnings.

The study found that some 113,000 low income workers would benefit from the proposal and that the exchequer cost of the proposal would be €140m per annum.

Social Justice Ireland presented a paper *Basic Income – Why and How in Difficult Times: Financing a BI in Ireland* to the Bien International Congress in 2012 (Healy et al. 2012). The context for the paper was the economic crisis in the EU and the "series of decisions which have been made that have seriously damaged Ireland's most vulnerable people, that place a disproportionate burden on their shoulders and seriously damage the social infrastructure on which they depend" (ibid.). The paper presented ten reasons for introducing a basic income:

- It is work and employment friendly
- It eliminates poverty traps and unemployment traps
- It promotes equity and ensures that everyone receives at least the poverty level of income
- It spreads the burden of taxation more equitably
- It treats men and women equally
- It is simple and transparent
- It is efficient in labour-market terms
- It rewards types of work in the social economy that the market economy often ignores, e.g. home duties, caring, etc.
- It facilitates further education and training in the labour force
- It faces up to the changes in the global economy.

The paper updated the Government Green Paper (Department of the Taoiseach 2002) estimate of the basic income payments and other payments that would be required in 2012 and the costs and savings that would arise. It concluded that the net cost of basic income could be met by:

- A Social Responsibility Tax, payable by employers to replace Employers PRSI, of 8 per cent of payroll

- A tax rate (replacing income tax, PRSI and Universal Social Charge) of 45 per cent on all personal income.

It concluded that:

> "A basic income system is an essential component for Ireland if it is to move towards a sustainable future and a social model that values and includes the well-being of all members of society and respects and protects the common good and common resources for future generations. Basic income is affordable, feasible and politically viable in Ireland today. It is an essential component of any sustainable, equitable and inclusive future for present and future generations in Ireland. It is clear, simple, transparent and easy to administer unlike the current tax and welfare system."

In 2013, Social Justice Ireland published *A Universal Pension for Ireland* (Larragy 2013). This proposal was, in effect, a full and universal basic income for those aged 65 years and over, based on residency. The proposal would:

- Replace the existing State Contributory and Non-Contributory Pension

- Provide everyone of pension age with a weekly pension of €230.30 (i.e., the equivalent of the current State Contributory Pension), rising gradually over time

- If they have been resident in Ireland for 40 years, from age 16 to pensionable age, they would receive the full Universal Pension

- If they have less than 40 years' residency, they would receive as their Universal Pension the more favourable of the following:

– A residency-related pension (2.5 per cent of the full Universal Pension per year of residence)

– Their current pension amount.

The study reported that, despite generous tax reliefs, only half of the workforce was covered by a private pension scheme. In addition, the current state pension constituted the main source of income for over 80 per cent of those aged 65 and over in 2011. In that year, the State Pension and associated transfer payments accounted for 88.6 per cent of the first quintile's retirement income, 95.1 per cent of the second quintile's, 88.3 per cent of the third quintile's, and 63 per cent of the fourth quintile's retirement income. Only the highest earning 20 per cent of pensioners did not rely on the state pension for a majority of their retirement income. Even then, the state pension constituted the single largest source of income for the top quintile.

Given the ineffectiveness of generous tax reliefs in promoting pension coverage and the modest role of private pensions in supporting pensioners' incomes, the Report recommended that the marginal rate of tax relief on private pension contributions should be reduced to the standard rate of 20% and this measure should also apply to the Public Service Pension Related Deduction (or 'pension levy'). This would be a strongly progressive change, as nearly 82% of the additional benefit flowing from tax relief at 41% instead of 20% went to the top 20% of earners, with 56% accruing to the top 10% of earners. The standard-rating of pension contributions together with some further restriction on the extent of tax relief claimed would more than fund the Universal Pension proposal in the current year and for every year up to 2046. According to the Report, the proposal would have many benefits as it would:

- Provide older citizens, regardless of their previous social insurance contribution record or means, a guaranteed income during old age
- Provide those older people who do not receive any support through the State pension system with a pension, thus achieving universal coverage
- Provide a secure and certain framework around which citizens can plan for their retirement

- Over time it would distribute income from the wealthiest in society to the poorest, creating a more egalitarian society, and

- Ensure the long-term sustainability of the State pension system.

Organisations which have analysed and promoted basic income

Two organisations have been to the fore in analysing and advocating for basic income in Ireland: *Social Justice Ireland* (and prior to 2009 *CORI Justice*) and *Basic Income Ireland*.

Social Justice Ireland (www.**socialjustice**.ie/) has been the source of most of the analyses of basic income in Ireland over the last 20+ years. In its annual publications, *Socio-Economic Review* and *Budget Choices*, the organisation has consistently argued that basic income represents a better option than the current system. It co-hosted the international Bien Congress in Dublin in 2008. Basic income has featured prominently in several of its annual Social Policy conferences.

Basic Income Ireland (www.**basicincomeireland**.com/) has been in existence since the 1990s and is one of Bien's (Basic Income Earth Network) oldest national affiliates. It co-hosted, with *Social Justice Ireland*, the international Bien Congress in Dublin in 2008. From 2011, it has become much more active in hosting public meetings, writing papers and articles, leafleting and engaging with the media. It hosts an annual Summer Forum on basic income featuring Irish and international speakers.

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