UBI-eh?

Strengthening minimum income guarantees, universality and unconditionality in the UK working-age welfare state

IPR Report

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1. Introduction

Proposals for Universal Basic Income (UBI) have risen in political salience in the last decade, in both OECD countries and the Global South. According to the definition of the Basic Income Earth Network, a UBI is 'a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement' (Torry 2019). UBI is advocated as a solution, variously, to: poverty and destitution, dependence on precarious employment and labour exploitation, the impact of automation on labour markets, and unsustainable environmental resource extraction (Reed et al. 2022; Standing 2011; Wright 2004; Andersson 2010). It is motivated by normative concerns ranging from 'real freedom' to republican liberty, equality and sufficiency (Van Parijs 1996: Petitt 2007; Bidadanure 2019).

Policymakers, community activists and advocates of UBI have increasingly used pilot projects to generate empirical evidence on the effects of basic income schemes, and to pragmatically experiment with their administration and implementation (Chrisp et al. 2022; Howard et al. 2023). Many of these schemes are 'UBI-like': that is, they meet one or a number, but not all of the characteristics of a UBI as defined by the Basic Income Earth Network. Typically, they are unconditional with respect to job search requirements and sanctions but not in terms of targeting, whether by income or status. As we discuss below, this pragmatism and flexibility with respect to the precise definition of UBI is typical of the ways in which the policy is understood and advocated in electoral politics (Chrisp 2020).

Scholars have also undertaken several microsimulations of the costs and benefits and distributional consequences of UBI proposals in different national contexts (Martinelli 2020; Richiardi 2022; Torry, 2016; Reed et al. 2022; Browne & Immervoll 2018). These microsimulations can be used to quantify the costs, distributional effects on different households, and impacts on poverty and inequality of UBI schemes. Many are 'fiscally neutral', that is, they offset the increased public expenditure on UBI schemes through tax increases and/or cuts to social security benefits, and model the impact accordingly. Others advocate for sovereign-money funded UBI schemes (Crocker 2020).

In this report, we pursue an alternative strategy. Instead of modelling a UBI scheme that could be introduced as a single or 'big-bang' reform, we consider a series of incremental, pragmatic reforms that might be considered steps and stages on the road to a UBI as well as worthwhile in their own right. We do so in the context of a particular national welfare state, the liberal 'Beveridgean' social security system of the United Kingdom. Our approach has a twofold motivation. First, we seek to use the normative principles informing UBI proposals – of universality, unconditionality, and basic minima – to guide a set of reforms to the main working-age benefits of the UK, incrementally reforming the latter to better approximate those principles. Second, we aim to inform political consideration of UBI proposals, recognising that most politicians and policymakers do not seek to implement a 'full' UBI in the next Parliament but to make 'steps' towards a UBI or use a UBI as a critique of the existing system.

This approach reflects research into the political economy and politics of UBI, which finds that advocacy for UBI is highly multi-dimensional, dependent on context, and largely pragmatic when faced with institutional and electoral constraints (De Wispelaere & Stirton 2004, Chrisp 2020). Political parties that express support of UBI tend to portray it as a long-term goal, particularly when those parties have a reasonable

chance of governing, and thus combine UBI advocacy with a series of more modest reforms pitched as steps towards a UBI or, at the very least, consistent with the vision and principles of the policy. These typically include the removal or relaxation of various forms of conditionality attached to benefits, whether behavioural conditions such as job search requirements or means testing. However, steps towards a UBI also often include raising the level of minimum income benefits, the simplification or integration of benefits or the increased capacity to combine benefits with earnings among a wide variety of individual reforms.

Such a perspective also aligns with other proposals in the UK policy context from the Joseph Rowntree Foundation and Trussell Trust for an 'Essentials Guarantee' (Bannister et al. 2022), the New Economic Foundation's National Living Income proposal (Tims & Sterling 2022) and the shift by the Scottish government from exploring the feasibility of a basic income pilot to the establishment of a Minimum Income Guarantee research group. Although in the abstract such proposals stand in stark contrast to the universal nature of a UBI, they are very similar to both the kinds of manifesto commitments found in UBI-supporting party documents and the policies tested in so-called basic income pilots.

Thus, the motivation of these microsimulations is to explore the cost and distributional consequences of such policy proposals, including examining individual steps that are relatively modest in nature and a combined or cumulative approach that would constitute considerable movement in the direction of less conditionality within the UK social security system. While these reforms would maintain Universal Credit and household means testing as a core part of the social security system, they would greatly increase the level of support to low-income households and ease the burdens associated with many of the rough edges of the existing work-first benefit system.

2. Context

The UK's social security system represents something close to the archetypal liberal welfare regime (Esping-Andersen 1990). Although the National Health Service offers a glimpse into an alternative ideological and institutional history outside of the benefit system (Bambra, 2005), the UK's social security benefits are residual and largely funded by general taxation, with a significant reliance on flat-rate and means-tested benefits. Unlike most other European countries, earnings-related benefits and the principle of earnings replacement have historically played a relatively minor role, with some elements introduced in the 1960s for pensions, sickness and unemployment, which were then abolished or cut back in the 1980s. Reform has proceeded in incremental and evolutionary fashion, and there are considerable continuities of policy and administration over time (Kelly & Pearce 2023). There is also a very limited role for trade unions and employers in decision-making and administration, with policy centralised in government departments.

The Beveridgean model of flat-rate insurance benefits is most evident today in the pension system, where recent reforms have removed the state earnings-related component and increased the basic, single-tier pension to such a level that means-tested supplements are significantly reduced, mostly supporting those without a complete contribution record (Massala & Pearce 2022). On the other hand, for the working-age population, there has been a contrasting trend evident in the steady erosion of the value of unemployment benefits. If excluding housing benefits, the UK now has the lowest unemployment net replacement rate for single people in the OECD due to its exceptionally low flat-rate unemployment benefit[1]. Combined with the cross-party consensus on targeting resources at 'deserving' groups since the 1980s, namely (working) families, this has led instead to the dominance of means-tested benefits for the working-age population, culminating in the creation of Universal Credit.

Universal Credit is an amalgamation of six pre-existing means-tested benefits – Income Support (last-resort social assistance), income-tested Jobseekers Allowance (unemployment benefit), income-tested Employment and Support Allowance (disability benefit), Housing Benefit, Child Tax Credits (family benefits) and Working Tax Credit (in-work benefits), now collectively referred to as legacy benefits. Universal Credit was first introduced by the Conservative-Liberal Democrat coalition, which started the gradual roll-out of the policy in 2013, with an aim of completely replacing legacy benefits by 2024/25. The objectives of the policy were manifold (Millar & Bennett 2017), but at its core the creation of a single means-tested benefit and a single taper rate[2] (initially 65%, since reduced to 63% and now 55%) for each household receiving Universal Credit was intended to reduce bureaucracy for the Department for Work and Pensions (DWP) and for applicants and provide a clear incentive to work. While the new policy faced many implementation problems leading to delays in its early years (Timmins 2016), it is now the main source of support for low-income households both in and out of work, such that over five million households were in receipt of it in May 2023. Nevertheless, at the end of 2022, there were still roughly 2.5 million households in receipt of legacy benefits.

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[1] It should be stated that although it has been well-protected in recent years in a context of austerity, the net pension replacement rate is also low relative to other European countries for workers on an average wage.

[2] the rate at which the maximum Universal Credit award is reduced as earnings increase

As well as representing the apex of means testing logic in the benefit system, Universal Credit was also designed to ramp up the UK's long-standing 'work-first' approach in labour market policy, with an extensive role for benefit sanctions and conditionality. In 2014, the UK had one of the strictest conditionality regimes in the OECD (Langenbucher, 2015), including the strictest job search requirements and monitoring of any country. There was briefly a period after 2017 in which the government acknowledged it needed a more balanced approach and reduced the maximum sanction period; government statistics suggest show the sanction rate fell. However, since Covid-19 the sanction rate has risen sharply and government rhetoric around sanctions has intensified.

Finally, recent governments have also cut back on family benefits. For example, in 2015, the Conservative government introduced a two-child limit in Universal Credit such that households with more than two children born after April 2017 could not claim the child element for those children (currently £269.58 a month per child). Unsurprisingly this has caused significant hardship among large families (Andersen 2023). The Coalition also ended the universality of Child Benefit in 2012, which had existed since 1977, and in its previous form as Family Allowances since 1946. Households with children that have an individual member earning above £50k need to pay a High Income Child Benefit Charge equal to 1% of the value of the Child Benefit they receive for every £100 above £50k they earn, such that all of the Child Benefit will have been paid back if they earn £60k or above. While this means a rate of roughly 12.5% on gross income for those with one child, for someone with four children the charge increases their marginal effective tax rate by over 37 percentage points. Often referred to as 'affluence testing' rather than means testing due to the high income level at which withdrawal of the benefit kicks in, similar reforms have been introduced in countries such as Canada and Denmark in an attempt to rein in costs. Nevertheless, many of the same issues that typically beset means-tested benefits – high marginal effective tax rates, bureaucratic load and lower take-up among entitled households – have raised concerns about the value of such a reform (Seely 2023).

Overall, much of this context points to the incompatibility of UBI with existing logics within social security, but there are also clear reasons to think that the UK could be a warm climate for UBI-like policy (Martinelli & Pearce 2019). The centralisation of benefit policy and the absence of union vetoes and of earnings-related benefits provides an environment in which political parties and governments intent on instigating structural reform to the benefit system face few barriers. Although the dominant role of Universal Credit as a household means-tested system would make any attempt to abolish means testing altogether extremely difficult, there are still many changes that could be made to significantly reduce conditionality across multiple dimensions. Exploring the costs and consequences of these modest but significant changes is the primary aim of this paper.

3. Outline of the microsimulation and method

To understand the costs and consequences of our proposed steps towards basic income we use UKMOD (Richiardi et al. 2021), an open-source tax-benefit microsimulation model for the UK. It is particularly useful for answering 'what if' questions about the consequences of tax-benefit *reforms* such as the ones we explore. We focus in our analysis on the overall budget costs, i.e. the increase in government expenditure required to fund the policy, and the effects on overall levels of poverty, child poverty (0-18 year olds) and elderly poverty (over 65s). We also sketch in a more informal manner the consequences of our reforms on marginal effective tax rates for specific groups.

UKMOD uses Family Resources Survey micro-level data on individuals and households combined with up-to-date policy rules. However, we are limited by the fact that the Family Resources Survey data for 2020-22 is distorted by Covid-19 and pandemic policy interventions, which have since been withdrawn. Thus, in this analysis we use 2019 Family Resources Survey data uprated to account for distributional income changes since then in combination with policy information from 2022-23.

For each policy or policy combinations we report the gross cost for the public budget and then the distributional consequences. We also examine what the gross cost would mean if funded through progressive changes to income tax. We designed a rule of thumb such that a one percentage point increase in the basic rate of income tax would require a 2 percentage points increase in the higher and top rates of income tax. For example, a one percentage point increase in the basic rate to 21% would mean the higher rate would be 42% and the top rate 47%. We increase taxes by multiples of 0.2 percentage points in the basic rate and 0.4 percentage points in the higher and top rate as a means to cover the gross cost. Thus, the minimum possible increase would also be 0.2pp in the basic rate (to 20.2%) and 0.4pp in the higher and top rate (to 40.2% and 45.2%). If the policy costs less than the £2.15bn that this would raise, then no tax changes are implemented. If a policy costs above £4.3bn then it would require an increase of 0.4 percentage points in the basic rate and 0.8 percentage points in the higher and top rate and so on. Although government do not tend to increase marginal tax rates by less than 1 percentage point, we find it is a more tangible and intuitive way to illustrate the rough costs of the policy than just citing a number in billions. It also allows us to calculate the distributional consequences of funding the policy proposals through income tax, which we display in the Appendix.

We focus on relative poverty measured in reference to a poverty line set at 60% of median household income, calculated after accounting for housing costs. All of our indicators of poverty use a floating rather than fixed poverty line to reflect changes in the income of the median household. Therefore, a household may fall into poverty despite not seeing any reduction in their income, as a policy change increases the income of the median household. Although this may seem counter-intuitive, it also remains true to the notion and spirit of a relative poverty measure. To use a fixed poverty line leaves open the question of when one would revert to using an adjusted relative poverty measure, at which point poverty would then change suddenly.

4. Key policies tested

Our initial key proposal was to **auto-register all resident households in the Universal Credit** system even if they are not eligible to receive a transfer, drawing on the New Economics Foundation's proposal (Tims & Sterling 2022). We model this by increasing take-up to 100% and take this as a presumptive first step for all future reforms. As part of this policy reform, we therefore also assume the **removal of sanctions** such that households cannot be denied access to the benefits they are entitled in reference to the means test. Based on estimates of existing take-up, this would cost £12.802bn and all subsequent calculations of cost and tax changes were done in reference to a baseline of 100% take-up. It is worth stating that absent of achieving the goal of 100% take-up, the other costs are likely to be an overestimate but equally so will the reductions in poverty.

The next step was to **finish the migration to Universal Credit** from legacy benefits. This is in effect the final step of auto-registering all resident households in the Universal Credit system and indicates the cost and distributional consequences of doing so even for those currently receiving legacy benefits.

The second step was to **remove wealth and savings from the household means test** in Universal Credit. The current situation means that any capital or savings – excluding primary housing – above £6k reduces the amount of Universal Credit you receive up until savings of £16k at which point you are entirely ineligible.

The third step was to **reduce the taper rate to 40%** and thus make Universal Credit more universal, reducing marginal effective tax rates for those already receiving it and extending receipt of the benefit up the income distribution. Of course, the flipside is it would increase marginal effective tax rates for those *not* currently receiving who would then now be recipients. We discuss this more at the end of the results.

The fourth step was to **increase the standard allowance** in Universal Credit to £120 a week for all single people and £200 a week for all couples. The status quo was £265.31 a month (c.£61.23 a week) for single people under 25 and £334.91 a month (c.£77.29 a week) for single people aged 25 and over. For couples both under 25 the standard allowance was £416.45 a month (c.£96.10 a week), while couples with at least one member aged 25 and over receive a standard allowance of £525.72 a month (c.£121.32 a week). The levels were increased by 10.1% in line with inflation for 2023-24 but this is not part of our analysis.

The fifth step was to **remove the High Income Child Benefit Charge** for households with children where one adult earns over £50k. This would reinstate the universality of the benefit so that all households with children would receive it and there would be no increase in marginal tax rates for those earning between £50k and £60k.

The sixth step was to **abolish the two-child limit in Universal Credit**. The current policy restricts the amount of support given to households with more than two children within a household. Abolishing the limit would make payments adjust for the additional needs larger families have and increase support for such households with a low income.

Finally, the seventh step was to **increase the level of Child Benefit for all children** to £30 a week. The status quo was that the level for the eldest child was set at £21.80 a week and £14.45 a week for all subsequent children. As with the standard allowance in Universal Credit, benefit levels were increased by 10.1% in line in inflation for 2023-24 but this is not part of our analysis.

All of these steps are designed with universality, unconditionality or increased generosity in mind, providing a more guaranteed income floor to all households and reducing bureaucracy and insecurity with respect to their interaction with the benefit system. As stated before, this may not be what all UBI advocates would support, but does reflect many of the ways in which political actors that support UBI have pitched short-term 'steps' alongside long-term advocacy (Chrisp 2020).

5. Results

We start by estimating the gross cost of reforms if implemented alone rather than cumulatively as a combination of reforms. Table 1 shows both the estimated gross cost and the changes to income tax required to cover the cost in multiples of 0.2 percentage points in the basic rate and 0.4 in the higher and top rate.

Three individual reforms are sufficiently low in cost that they are closer to not requiring any tax changes than the minimum required tax change of 0.2 percentage points in the basic rate and 0.4 in the higher and top rate: the migration to Universal Credit, the removal of wealth and savings from the means test and the abolishing of the two-child limit in Universal Credit. The removal of the savings means test is the cheapest of all policies at £0.468bn, leading to 99.4% budget neutrality with no tax changes. Finishing the migration to Universal Credit and scrapping the two-child limit in Universal Credit are a relatively similar cost at £1.272bn (98.4% budget neutrality) and £1.511bn respectively (98.1% budget neutrality).

Removing the High Income Child Benefit Charge is the next most expensive step, costing £3.521bn. After adding 0.2 percentage points onto the basic rate, making the new basic rate 20.2%, and adding 0.4 percentage points onto the higher and top rate, making the new rates 40.2% and 45.2% respectively, 98.3% of the budget is covered. Increasing Child Benefit to £30 a week is a similar cost of £4.765bn. This tips over into requiring an increase of 0.4 percentage points to the basic rate and 0.8 to the higher and top rate. If these tax changes were implemented alongside this reform, budget neutrality would be 99.4%.

The two big-ticket items are the reduction of the taper rate to 40% and the increase in the standard allowance to £120 a week for singles and £200 a week for couples. The gross cost of the reduction of the taper rate is estimated at £9.221bn, which would require an increase of the basic rate by 0.8 percentage points (to 20.8%) and the higher and top rate by 1.6 percentage points (to 41.6% and 46.6%) to achieve 99.4% budget neutrality. The gross cost of increasing the standard allowance meanwhile would be £11.108bn and 99.8% budget neutrality could be achieved by increasing the basic rate of income tax by 1 percentage point and the higher and top rate by 2 percentage points.

Table 1: Estimated gross cost of individual reforms to the benefit system and suggestive changes to income tax required to cover the cost

Individual policy reform	Estimated gross cost	Suggestive possible tax implications
Finish migration to Universal Credit	£1.272bn	<0.2pp
Remove wealth/savings from UC means test	£0.468bn	<0.2pp
Reduce taper rate to 40%	£9.221bn	Basic: +0.8pp; Higher: +1.6pp
Increase standard allowance (£120/week & £200/week)	£11.108bn	Basic: +1pp; Higher: +2pp
Remove High Income Child Benefit Charge	£3.521bn	Basic: +0.2pp; Higher: +0.4pp
Scrap two-child limit in UC	£1.511bn	<0.2pp
Increase Child Benefit (£30/week)	£4.765bn	Basic: +0.4pp; Higher: +0.8pp

We now turn to the consequences for poverty, measured as relative poverty after housing costs, for the overall population and separate poverty measures for households including children and elderly members. Figure 1 shows that prior to any intervention the poverty rate is 17.99%, which falls considerably to 16.22% after we assume full take-up when households are auto-enrolled, and conditionality is removed. Figure 2 shows that the current child poverty rate is much higher at 25.25% and the effect of full take-up is even larger reducing child poverty to 23.15%. Finally, Figure 3 shows that while elderly poverty is much lower in the status quo at 13.88%, full take-up has the most dramatic effect reducing the rate to 10.17%. A reminder here that all subsequent measures of poverty after a policy reform assume full take-up.

The subsequent individual reform that most reduces poverty is the increase in the standard allowance. Implementing this would reduce overall poverty rates to 14.5% (a reduction of 1.72 percentage points) and child poverty rates to 20.33% (-2.82pp). Increasing Child Benefit is the next most effective policy reform for reducing poverty, particularly in the case of child poverty. Overall poverty rates fall to 15.39% and child poverty rates fall to 20.61%. The least effective poverty reduction strategy is the removal of the High Income Child Benefit Charge. This actually increases overall poverty rates by 0.01 percentage points to 16.23% and only reduces child poverty by 0.06 percentage points to 23.09%. The removal of the savings means test is also underwhelming from a poverty reduction perspective leading to a 0.06 percentage point reduction in overall poverty rates and only 0.04 percentage point reduction in child poverty.
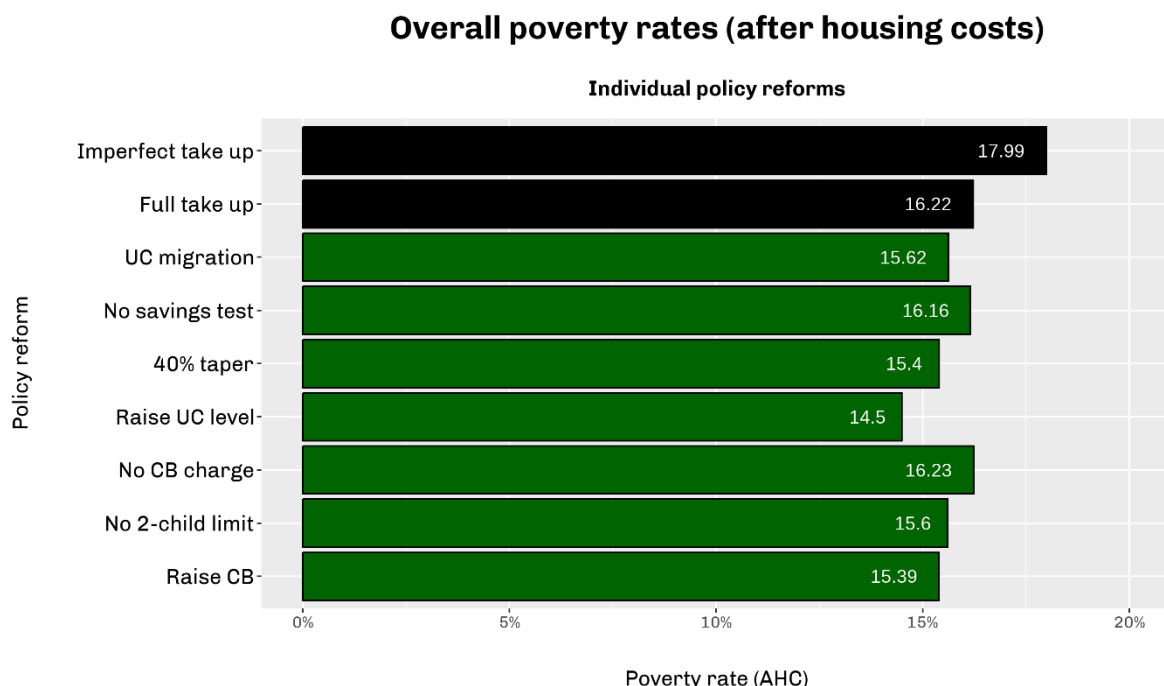

Figure 1: Overall poverty rates after housing costs comparing the status quo to after the implementation of individual policy reforms
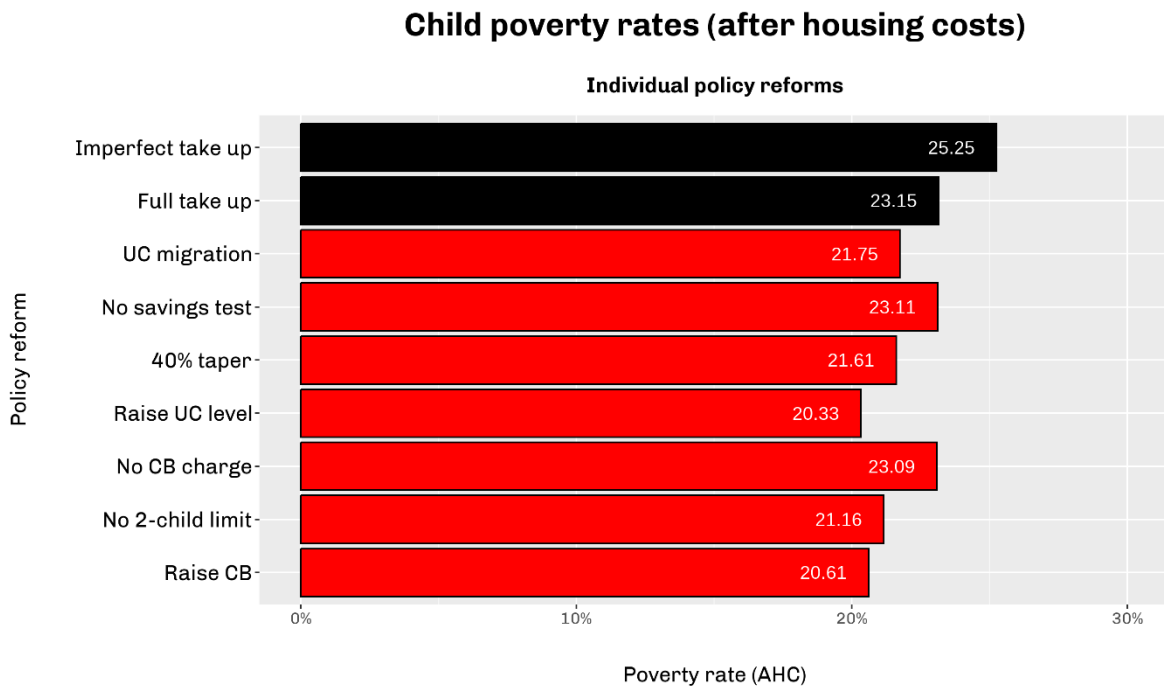
Child poverty rates (after housing costs)

Individual policy reforms

Policy reform	Poverty rate (AHC)
Imperfect take up	25.25
Full take up	23.15
UC migration	21.75
No savings test	23.11
40% taper	21.61
Raise UC level	20.33
No CB charge	23.09
No 2-child limit	21.16
Raise CB	20.61

Figure 2: Child poverty rates after housing costs comparing the status quo to after the implementation of individual policy reforms

As all of these reforms focus mostly on the working-age population, it should be relatively unsurprising that they do not have a significant impact on elderly poverty rates. In fact, Figure 3 shows that all reforms except for the removal of the savings means test increase elderly poverty due to the fact that they increase the income of the median household while not providing additional income to the vast majority of elderly households who will rely on a state pension. The removal of the savings means test very slightly reduces elderly poverty, likely due to the fact that there are at least some elderly households that could be eligible for Universal Credit with a significant amount of savings. The reduction in the taper and the increase in Child Benefit have the most significant impact on the income of the median household and therefore increase elderly poverty the most, albeit still only 0.6 percentage points in the case of the former.

In the Appendix, we also show the consequences for poverty after the implementation of the illustrative income tax increases to cover budget neutrality. Figures A1-3 show the effect on overall poverty, child poverty and elderly poverty of introducing these taxes alongside the reforms. In all cases, poverty is reduced further primarily due to the consequences for the incomes of the median household. However, the consequences are most drastic for elderly households where poverty falls considerably in cases where the tax increases are significant, such as the raising of the standard allowance.
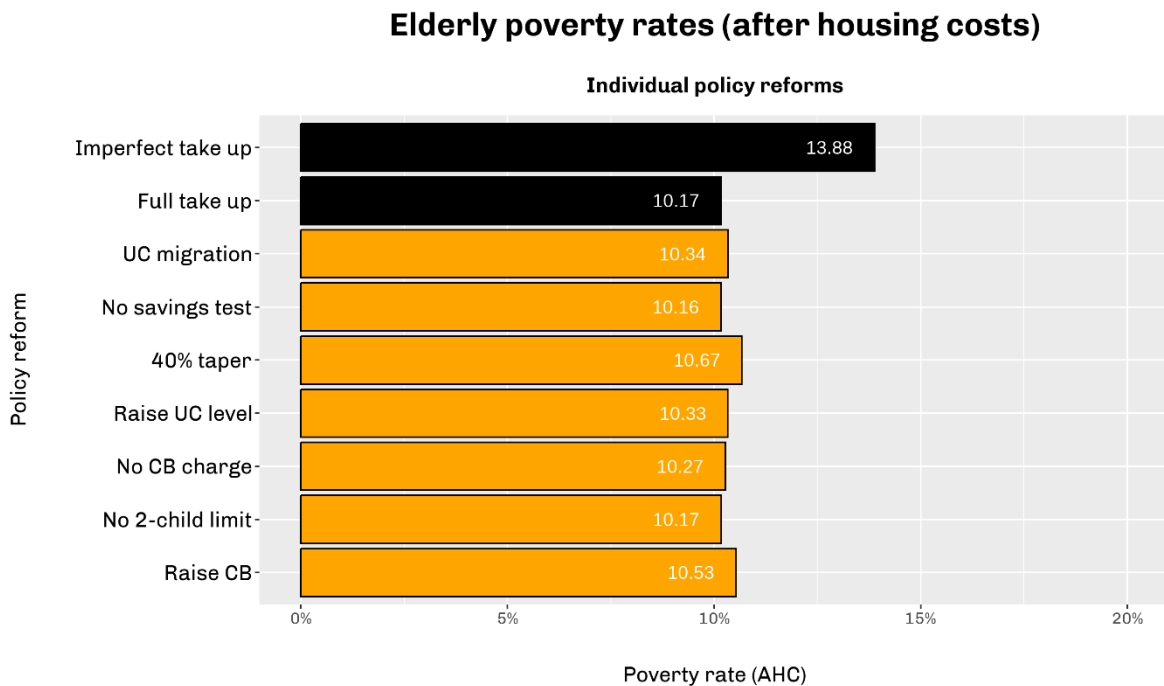
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Elderly poverty rates (after housing costs)

Individual policy reforms

Policy reform	Poverty rate (AHC)
Imperfect take up	13.88
Full take up	10.17
UC migration	10.34
No savings test	10.16
40% taper	10.67
Raise UC level	10.33
No CB charge	10.27
No 2-child limit	10.17
Raise CB	10.53

Figure 3: Elderly poverty rates after housing costs comparing the status quo to after the implementation of individual policy reforms

Of course, to some extent, the comparison of effects on overall poverty by policy reform are unbalanced due to the different gross costs of the reforms. One would expect more expensive individual reforms to be able to achieve more in poverty reduction if that is the stated aim. Thus, Figure 4 shows the gross cost in billions of pounds for every percentage point reduction in poverty from the level after assuming full take-up. This ratio is calculated simply by dividing the percentage point reduction in poverty by the gross cost in billions of pounds. The graph shows the extent to which the removal of the two-child limit is a very low-cost method of reducing poverty, as would be the full migration to Universal Credit. Although raising the level of the standard allowance in Universal Credit leads to the most significant reduction in poverty, it is not necessarily the most 'efficient' reform, costing over £6bn for each percentage point reduction in poverty. Although the standard allowance is seemingly targeted at supporting those on the lowest incomes, the nature of the taper in Universal Credit means that any increase in the standard allowance is felt by all recipients of the benefit further up the income spectrum.

The most expensive reform viewed through the lens of poverty reduction would be the 40% taper rate, costing £11.3bn for every percentage point reduction in poverty. As the removal of the High Income Child Benefit Charge increases poverty, we set it as 0, but it should be seen as the worst-performing reform from this perspective. Of course, both of these reforms are not solely or even primarily concerned with poverty reduction, which we discuss in more detail at the end of this section.

Cost (in £bn) per percentage reduction in poverty
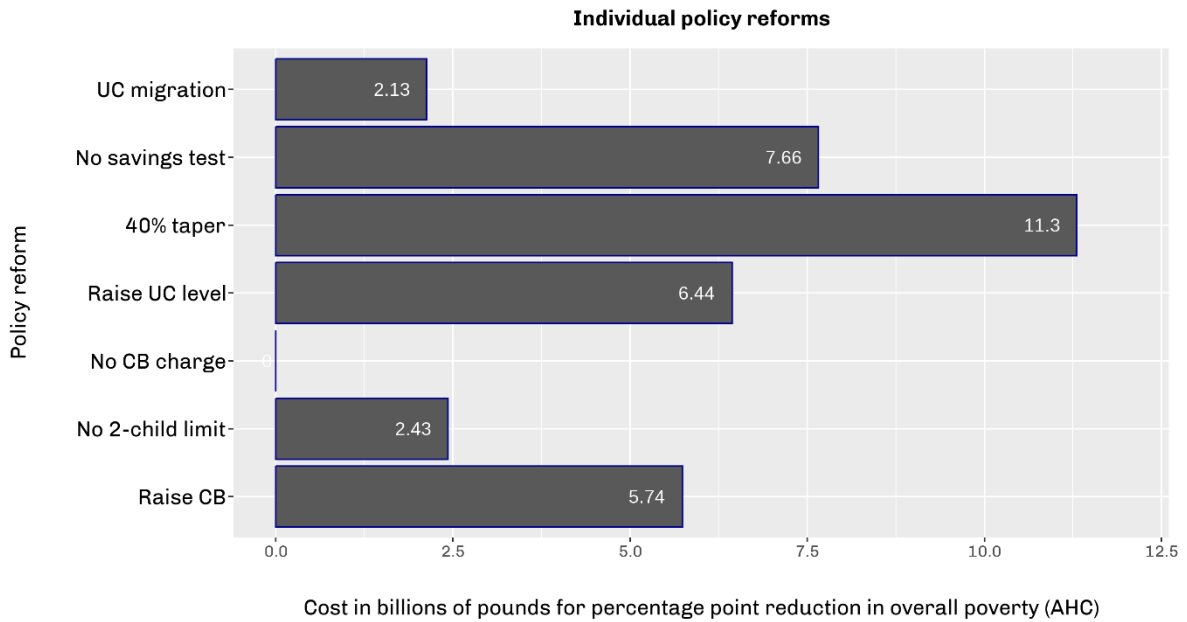
Individual policy reforms

Figure 4: Ratio of cost of policy reform to the percentage point reduction in overall poverty after housing costs

Next, Table 2 shows the estimated gross cost of cumulatively implementing each reform from top to bottom. This is most interesting for illustrating how interactive these steps can be for questions of cost and affordability. While increasing the standard allowance in the status quo would cost a little over £11bn, doing so after reducing the taper rate (and removing savings means test and finishing Universal Credit migration) would cost nearly £20bn as an additional measure. Similarly, increasing Child Benefit as an individual measure would cost just under £5bn but after making it universal again (alongside the other reforms), the cost increases to over £6.5bn. Implementing all nine steps is estimated to cost £46.124bn, which would require an increase of 4.4 percentage points in the basic rate and 8.8 percentage points in the higher and top rate to reach 98.9% budget neutrality.

Table 2: Estimated cumulative gross cost of reforms to the benefit system and suggestive changes to income tax required to cover the cost

Policy reform	Estimated gross cumulative cost	Suggestive possible tax implications
Finish migration to UC	£1.272bn	<0.2pp
Remove wealth/savings from UC means test	£1.897bn	Basic: +0.2pp; Higher: +0.4pp
Reduce taper rate to 40%	£14.403bn	Basic: +1.2pp; Higher: +2.4pp
Increase standard allowance (£120/week & £200/week)	£33.863bn	Basic: +3.2pp; Higher: +6.4pp
Remove High Income Child Benefit Charge	£37.383bn	Basic: +3.6pp; Higher: +7.2pp
Scrap two-child limit in UC	£39.56bn	Basic: +3.8pp; Higher: +7.6pp
Increase Child Benefit (£30/week)	£46.124bn	Basic: +4.4pp; Higher: +8.8pp

Turning again to the consequences for poverty rates, Figure 5 shows that implementing all nine policy steps would see overall poverty after housing costs fall to 12.36%. This would equate to a nearly 4 percentage point reduction from the point of full take-up in the status quo. Figure 6 shows that child poverty would see an even more dramatic fall to 13.49%, which would be a nearly 10 percentage point reduction.

Overall poverty rates (after housing costs)
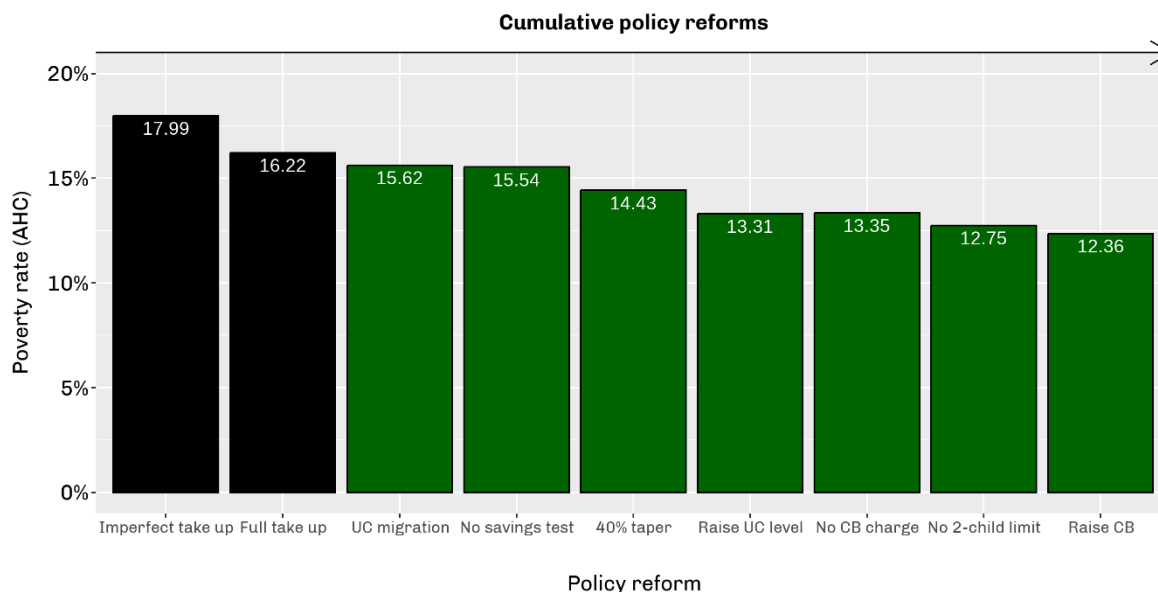
Cumulative policy reforms

Figure 5: Overall poverty rates after housing costs comparing the status quo to after the implementation of cumulative policy reforms from left to right
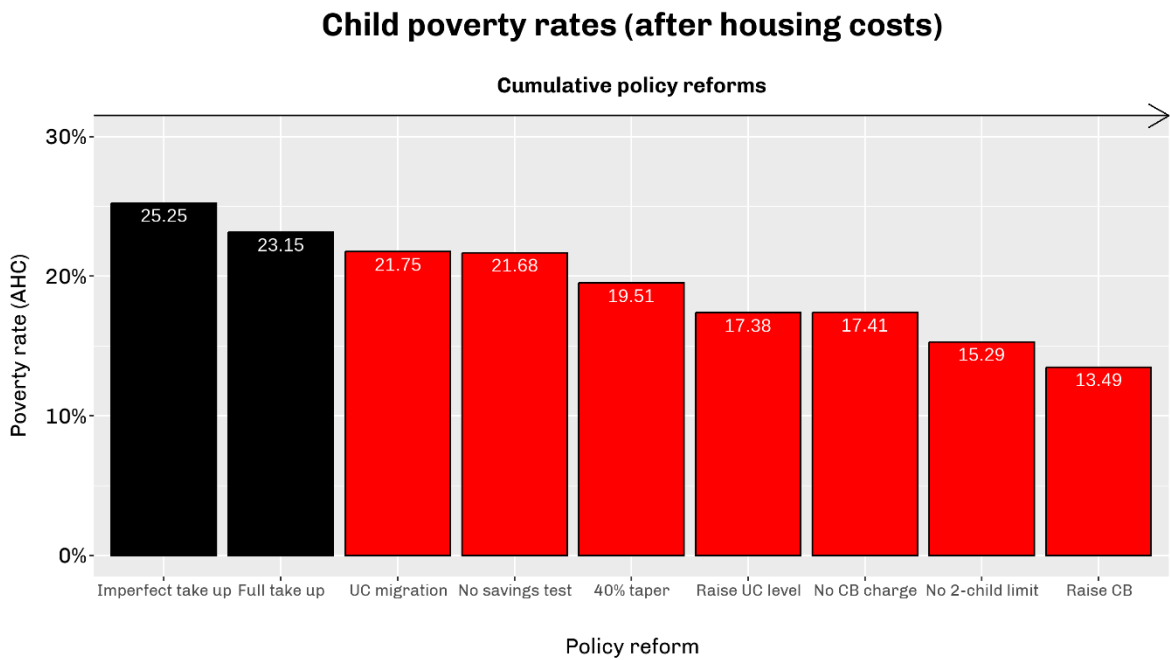
Child poverty rates (after housing costs)

Figure 6: Child poverty rates after housing costs comparing the status quo to after the implementation of cumulative policy reforms from left to right

As with the individual policy reforms, the effect on elderly poverty rates is negative rather than positive, with Figure 7 showing elderly poverty reaching 13.58% by the end of the full set of nine policy reforms. It is worth noting, however, that while this is over 3 percentage points higher than after the implementation of full take-up, it is still lower than the current status quo.

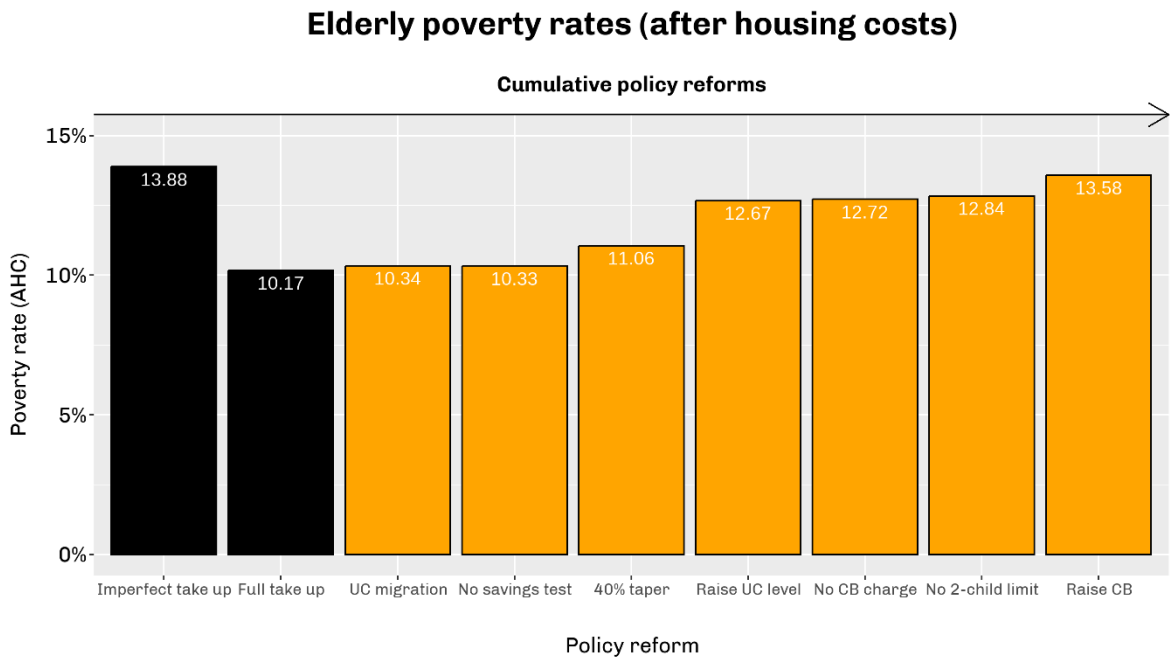**Elderly poverty rates (after housing costs)**

Figure 7: Elderly poverty rates after housing costs comparing the status quo to after the implementation of cumulative policy reforms from left to right

Combining both the cost and poverty consequences of individual and cumulative reforms, Figure 8 shows the apparent cost efficiency of reducing poverty across all our examples. To take the most significant example, the cost per percentage point full set of reforms would be roughly equal to the reduction of the taper rate alone at just over £11bn. It should be stated, however, that the difficulty with reducing poverty increases as the overall level falls, so this should not be particularly surprising.

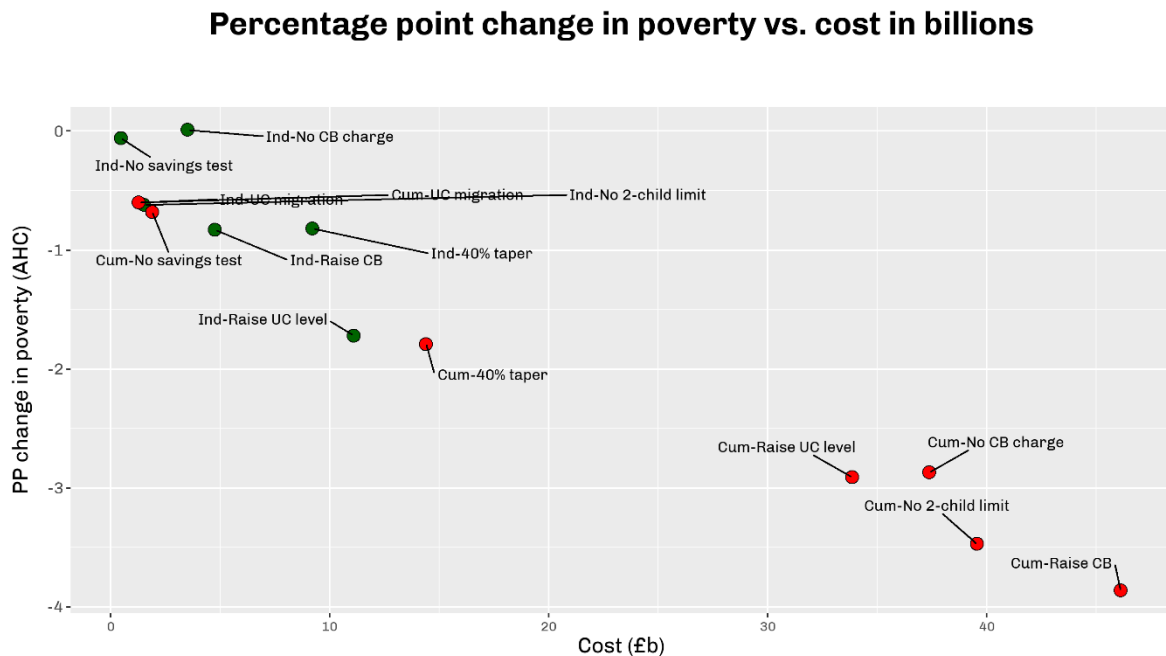**Percentage point change in poverty vs. cost in billions**

Figure 8: Comparison of the percentage point change in overall poverty after housing costs and the gross cost in billions of pounds of individual and cumulative policy reforms

Finally, we do not do a full analysis of the changes in marginal effective tax rates in this paper, but it would be useful to discuss what the expected consequences of these reforms would be. The two main policy reforms we have included that are specifically proposed with reducing marginal effective tax rates in mind are the reduction in the taper rate in Universal Credit to 40% and the removal of the High Income Child Benefit Income Charge. However, every policy will affect marginal effective tax rates in at least some way as they change who can receive Universal Credit and at what income level and thus bring new households into the situation of facing benefit withdrawal. This reflects the unavoidable trilemma or 'iron triangle' (Blundell 2001) in tax-benefit policy of increasing generosity, reducing marginal effective tax rates for low-income households and containing costs (i.e. keeping marginal effective tax rates for higher income households down if funded through income tax). We ignore council tax benefit, employer national insurance, pension contributions and student loan repayments in the below.

For those receiving Universal Credit that earn below the threshold for income tax and national insurance of £12,500, their marginal effective tax rate would go from 55% to 40%, while those receiving Universal Credit earning between £12,500 and the higher rate threshold, their marginal effective tax rate would fall from just under 69.4% to

59.2%.[3] However, for any households previously not receiving Universal Credit who would now be eligible, their marginal effective tax rates would increase from 0% (if earning under £12,500) to 40% or from 32% to 59.2% (if earning above £12,500).

There are currently few higher rate taxpayers that receive Universal Credit but their current marginal effective tax rate, ignoring other factors for now, would be 73.9%. The reduction of the taper rate to 40% would make this fall to 65.2%. However, the reduction of the taper rate would inevitably increase the number of higher rate taxpayers that are eligible for Universal Credit and increasing the standard allowance would exaggerate this further. For these households, the marginal effective tax rate would increase from 42% to 65.2%.

It is worth stating that most of these households would also be subject to the High Income Child Benefit Charge. If earning between £50k and £60k, then this increase in marginal effective tax rates from the increased eligibility for Universal Credit would be countered by the removal of the High Income Child Benefit Charge. As a rough sketch, a household with an individual earning £55k and three children not currently receiving Universal Credit would face a marginal effective tax rate of roughly 71% (42% for income tax and national insurance + 29.016% for the High Income Child Benefit Charge). If the reforms examined here, brought them within eligibility for Universal Credit (due perhaps to high housing costs), their marginal effective tax rate prior to the removal of the High Income Child Benefit Charge would be 92.6%. Abolishing the Child Benefit charge would lower this to 65.2%.

This discussion shows that there is no ultimate solution to the so-called 'iron triangle' of benefit policy but that the policy reforms here would broadly redistribute disincentives to work from the most extreme cases to others, with marginal effective tax rates lowered from those at extremely high rates to those with low rates, as is typically the stated aims of UBI policy reforms. We will do more specific analysis in a future paper.

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[3] Factoring in the recent fall in the rate of national insurance to 10% would make this a fall from 68.5% to 58%.

6. Discussion

This paper has looked at nine reforms that could be characterised as steps towards a UBI or a minimum income guarantee in the UK (or indeed valuable reforms in their own right). With a UBI in mind, however, there are other reforms not modelled here that could be considered a step in the direction of such a policy system. One example would be universalising the State Pension to all residents without a contribution record. In many ways this would be a logical extension of existing reforms, which not only increased the generosity of the single-tier pension but also increased the number of things for which residents could claim as National Insurance credits, such as receipt of Child Benefit. Another example would be introducing a Young Person's Basic Income or the extension or reintroduction of an Education Maintenance Allowance-style payment. This could be entirely unconditional, as in the case of the Welsh care leavers basic income pilot, or weakly conditional on participation in education, skills or employment activities. It could be combined or implemented separately to attempts to integrate all elements of support for young people into a single allowance or payment, including those from Universal Credit and support such as student loans and bursaries.

Perhaps the most radical step towards a UBI for working-age adults, however, would be individualising entitlements to elements of Universal Credit. This would be a major change in the UK welfare state.

We acknowledge some important limitations in our approach. Firstly, we would need to use the latest Family Resources Survey data and indeed the 2023-24 tax and benefit system for more precise costings relevant to a General Election year. As with all straightforward microsimulation analysis, the results also show the static effects of policy changes, not dynamically accounting for behavioural change. It is unlikely in the full cumulative reform scenario that there would be no behavioural changes but we remain relatively sceptical that such changes can be predicted a priori given their complexity for different groups. Relatedly, we do not fully engage with the notion of minimum income guarantees conceived of bringing all residents to a specific level and we also do not fully account for the interactions of wages and welfare. Our analysis focuses on policy reforms alone.

Nonetheless, we believe that this paper serves to contribute (at least) two important things. First, we hope to provide a reliable evaluation of possible policy reforms that any progressive government would be interested in implementing with the aims of reducing poverty, increasing coverage and reducing bureaucratic traps. Second, we aim to reframe the debate around UBI and Universal Credit away from polar opposition towards consideration of the ways in which we can move from the existing Universal Credit system towards a more universal, unconditional and generous social security system. We believe that advocates of UBI should consider such incremental reforms of the UK welfare state as plausible and desirable, and consistent with their normative ambitions.

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Appendix

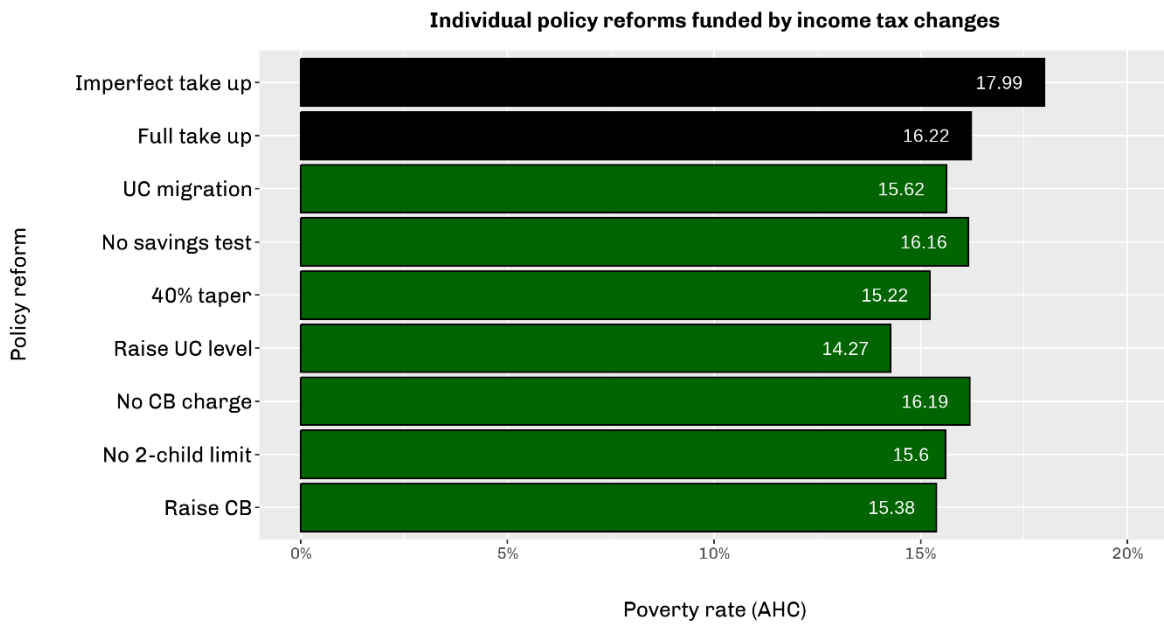**Overall poverty rates (after housing costs)**

Individual policy reforms funded by income tax changes

Figure A1: Overall poverty rates after housing costs when individual policy reforms are accompanied by changes to income tax to cover the costs
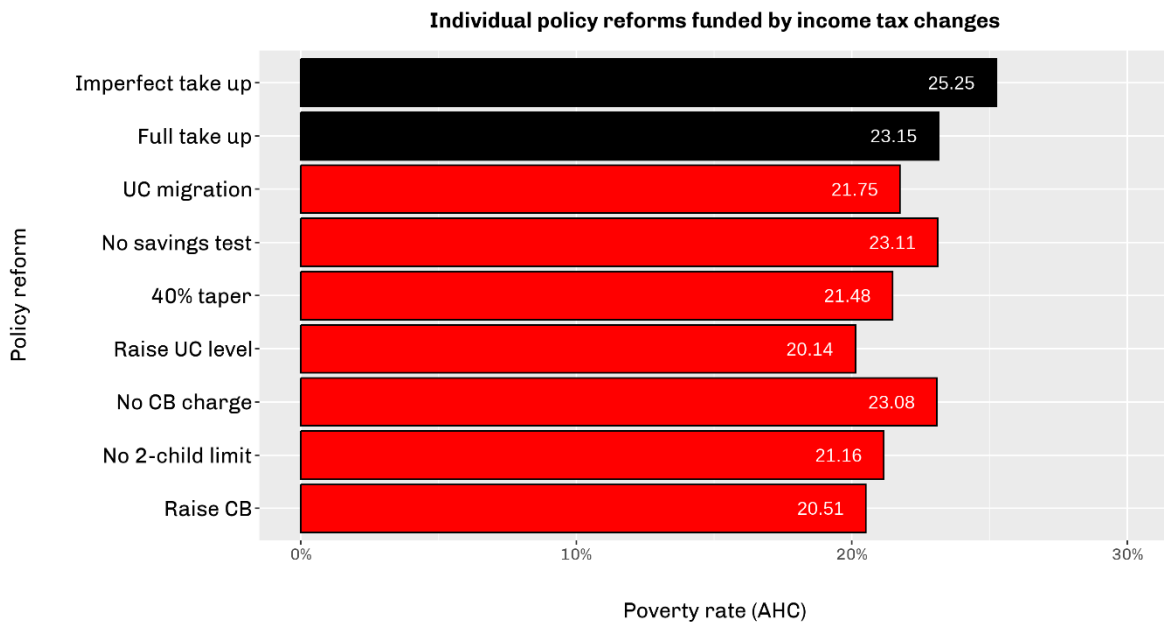
Child poverty rates (after housing costs)

Individual policy reforms funded by income tax changes

Figure A2: Child poverty rates after housing costs when individual policy reforms are accompanied by changes to income tax to cover the costs

Elderly poverty rates (after housing costs)
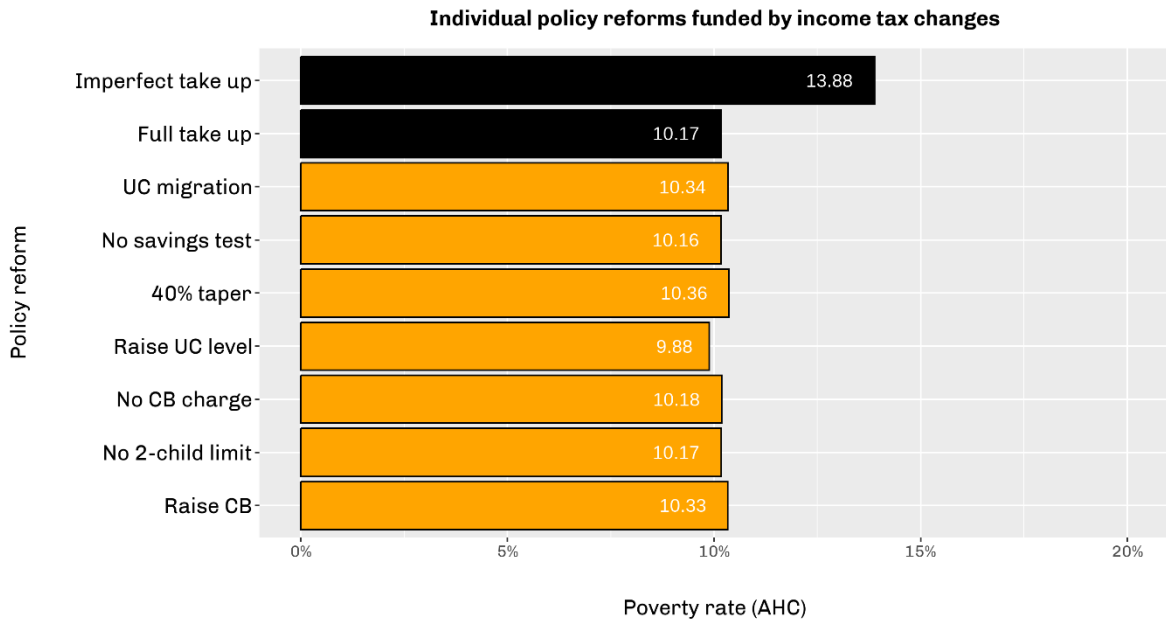
Individual policy reforms funded by income tax changes

Figure A3: Elderly poverty rates after housing costs when individual policy reforms are accompanied by changes to income tax to cover the costs

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