

To What Extent Would a Switch to a Universal Basic Income System Provide Solutions to Inequality in the United Kingdom?

MSc Development Studies

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Signed Luke Chilton.....

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Abstract

This dissertation seeks to examine whether a switch from the current UK welfare system to one with a central Universal Basic Income (UBI) policy as a primary source of income support for the population could help mitigate inequality processes in the UK. By placing inequality at the centre of analysis it reveals how welfare systems can impact inequality and makes the case that they should be constructed with inequality in mind and not just a concern for poverty reduction. By using two definitions of inequality the dissertation is able to flesh out what kind of inequality a UBI system can be expected to tackle and what forms it has a limited capacity to mitigate.

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Introduction

Inequality has become an epicentre of political battle in the UK in recent years. The UK reaction to the Grenfell tower fire disaster was framed in terms of the rich and poor (The Economist, 2017; McDuff, 2017; Warburton, 2017), the swell of popularity surrounding Jeremy Corbyn has occurred under the banner “for the many not the few” (see Labour Party, 2017) and even the Conservatives have been making promises to rein in the “fat cats” (Walters et al, 2017) in favour of the “just about managing” (Peck, 2017). These political battles have been fought in the wake of Piketty’s *Capital in the Twenty-First Century* (2014) which created waves of interest upon its release with many seeing it as confirmation that income inequality is out of control both within the UK, across Europe and the US.

Extreme income inequality is a worry due to its unpleasantly frequent correlation with wide ranging social problems such as poor health and low educational attainment (Wilkinson and Pickett, 2010), its association with political corruption and lobbying resulting in defective economies (Stiglitz, 2012) and its undermining of meritocratic values that can lead to social divisions and political volatility (Piketty, 2014: 422-424).

An equally worrying trend running through the UK is a decline in social mobility. As identified by the Social Mobility Commission “*one in ten low-paid workers at the start of the last decade had escaped low pay by the end...*”, those born post 1980s are starting work with less income than their predecessors, ending a long trend of increasing incomes since the post war era, and just “*one in eight children from low-income backgrounds is likely to become a high income earner as an adult*” (SMC, 2016: iii).

The presence of extreme income inequality coupled with low social mobility is hardly a positive sign for an economy that is supposed to be meritocratic. It would suggest that both the outcomes of economic competition and the competitions themselves have become unfair. Political and economic reform is arguably needed.

Clarifying objectives and terms

The aim of this dissertation is to investigate whether and to what extent a UBI could offer solutions to inequality processes if it were integrated into the UK welfare system. Whilst I do not expect UBI to be able to mitigate all inequality processes on its own, a complete solution would require a whole host of reforms working in mutual support of one another, I am interested in highlighting where a UBI might offer opportunities to reduce inequality through the welfare system.

In some ways the link between welfare systems and inequality is a contentious one. The aim of welfare systems has generally been to prevent poverty rather than reduce inequality (Torry, 2013: 117; Lansley, 2016: 7-8). I will be challenging this purpose by arguing that benefit systems have significant effects on inequality processes. This link means that welfare systems should not be indifferent to inequality and should actively try to engage with it alongside poverty reducing measures.

Due to the size of the UK benefit system this dissertation will be limited to observe the effects Universal Credit reforms have had and are likely to have on benefit claimants of the working age population. These reforms primarily affect the working age population who are a significant user of benefits but are also the group that contributes the most through taxation.

They are therefore of vital importance when discussing any welfare system and why I have chosen to focus on them.

The Social Mobility Commission recognises UK welfare needs reform (SMC, 2016: 154) but it does not go into detail about the welfare system itself, rather it recommends adding employment policies to cater for the low skilled. Whilst I agree with these recommendations, this misses an opportunity to investigate whether the current benefit system may also be having an impact on low social mobility by exacerbating inequality processes. If the current UK welfare system contributes to creating low social mobility it will exacerbate inequality processes. This would mean explicit welfare reforms are necessary to support the recommendations in the Social Mobility Commission's report.

There is added interest in analysing UBI in its relation to inequality as proponents of UBI have tended to focus on its relationship with poverty and freedom rather than exploring it directly in relation to inequality. There is some UBI literature discussing inequality in depth (see Haagh, 2015; Lo Vuolo, 2015), but as Haagh points out “[Universal] *basic income advocates have been ambivalent about inequality, especially its structure, which raises complex issues that might detract from the way the scheme expands system-autonomy, or the power...to lead different lives*” (2015: 50). This suggests there is somewhat of a gap in the UBI debate that could do with fleshing out and building upon. I aim to contribute to the UBI debate by placing inequality at the centre of my analysis.

I will be using two definitions of inequality in this essay. My first definition I shall call *inequality of opportunity*. It is meant in terms of “competitive equality of opportunity”, that is the ability for individuals to partake in fair competition but where the prizes for winning may be unequal (Atkinson, 2014: 620). I interpret this definition to mean that, as far as possible,

there should be no structural restraints that prevent people from being able to compete in the labour market, for example, those who are less well off should not experience significant additional barriers to taking part in the market than their wealthier counterparts. To use a race analogy; race participants must be able to compete for unequal prizes in a manner in which they are subject to reasonably similar structural restraints. Only under these conditions can the race correctly be deemed competitive.

I use this definition as I believe it is the central principle of meritocracy which is the mechanism through which unequal outcomes under capitalism are deemed acceptable by the populace. In other words, people accept unequal economic outcomes if they believe that they have been achieved through fair competition.

The second definition of inequality will be in relation to income and wealth, which I shall call *income inequality*. This definition has been borrowed from Piketty as used in his *Capital in the Twenty-First Century* (2014). Piketty gives some novel definitions of wealth, capital and income that I will be using unless otherwise specified. Piketty sees no difference between capital and wealth and uses the two terms interchangeably (ibid: 47). He argues capital (or wealth) to be the market value of something owned by a citizen or government at a specific time that can be traded on the market (ibid: 48); “the sum total of nonhuman assets that can be owned and exchanged on some market” (ibid: 46). These assets can be either financial, such as, bank accounts, hedge funds, stocks, bonds and so on or non-financial such as land, infrastructure, machinery amongst others.

Piketty defines national income as the total sum of income available to a country in a given year regardless of its legal classification (Ibid: 43). *Income inequality* therefore means that a group receives a far larger share of the national income than another group, whilst wealth or

capital inequality means the unequal ownership or access to assets. It is important to note that assets can create income for their owners, for example as profits or dividends, so income is not to be considered only in relation to wage labour. Any kind of income that can flow toward an individual either through labour or capital are important for the discussion of inequality.

As both Piketty and Atkinson point out a degree of inequality might serve the social good and the extent to which inequality is acceptable should be subject to public debate (Piketty, 2014: 480; Atkinson 2016: 621). The neoclassical model posits that unequal rewards help promote healthy competition between workers which may improve both competitors produce. Better produce would in turn benefit the rest of society as a whole. There is likely some truth to this claim. It should not however be overstated. Psychology studies show that extrinsic rewards such as high pay can lead to a focus solely on such rewards rather than the more important task of producing something of genuine value (see Holmes et al, 2011). This is further reinforced by a cross-cultural MIT study which shows high wages packets can have a negative correlation with performance when the job requires cognitive and creative input (Ariely et al 2005). Competition should only be used as a tool to facilitate positive social outcomes and should only be tolerated to the extent that the public agrees it serves the social good. Competition should not become a mantra in and of itself.

I will define UBI using the definition provided by the Citizen's Income Trust (CIT). UBI is a regular universal, unconditional, non-withdrawable payment to individuals as a right of citizenship (CIT, 2017). Each week or month every individual will receive a payment that is designed to cover basic needs. The amount may vary with age, for example the elderly may receive more than the young and working age population but they will all receive regular cash support. The payment is non-withdrawable, it cannot be taken away under any

conditions, although recipients can do with the money as they wish. It is therefore open to recipients to give it away if they so desired. It is universal and thus given to everyone. High income and wealth are not considered legitimate grounds with which to withdraw the UBI payment.

I will be making a distinction between a “UBI policy” and a “UBI system”. By “UBI policy” I mean any form of UBI taken in isolation. By “UBI system” I mean a social state with a UBI policy as a primary form of income support for its population. The word “system” is meant to include institutions that accompany a UBI policy and also the means by which funding for the scheme is attained. A “UBI system” may include some additional means tested benefits but a UBI policy would be a core source of income support for the population. I use the term “means tested benefits” to refer to any benefits, whether in the form of cash, free childcare, tax subsidies or something else that is targeted at an eligible group on the proviso that they meet the behavioural requirements in order to receive the support. Eligible groups could include the poor, disabled, single parents, elderly among others.

Structure

To answer the question to what extent would a switch from the UK's current means tested welfare system to a Universal basic income system offer solutions to inequality I will first provide a literature review to bring the reader up to date with common debates around UBI. Secondly, I will briefly outline reforms to the current UK benefit system. Next I will investigate the effects the current system has on disposable income for benefit claimants and how this erects significant barriers for their participation in the competitive labour market. I will argue this exacerbates inequality of opportunity.

Following this, I will examine the implementation and justification of sanctions under the current system. I will argue they have side effects that worsen inequality of opportunity and that a switch to a UBI system could improve on this. Then I will discuss the synergistic relationship between complexity and stigma that results in low take up rates of benefits in the UK. A UBI comparison will be made to show how a switch could improve these take up rates and help appease inequality of opportunity.

Finally, I will look at UBIs impact on income inequality. It will be argued that UBI could only offer a minor improvement to this phenomena but is compatible with other strategies. It will be argued that the combination of these strategies would be superior if paired with a UBI system rather than kept in place with the current system or a variation of another predominantly means tested one.

I will conclude that a UBI system could be an improvement on the Universal Credit scheme currently in place due to its mitigating effects on inequality of opportunity and its greater synergy with inequality reducing reforms.

1) Literature Review

1.1 Ideology

UBI is unusual in that it has critics and proponents from most political and ideological positions ranging from the far right to the far left.

Left wing libertarians tend to see UBI as increasing freedom by liberating people from dependency on wage labour and enabling them to discover their own conception of the

“good life” (Van Parijs, 1991). Others argue it increases republican freedom, the freedom to not be dominated by others. By ensuring everyone can access an income sufficient to live off, workers are empowered to refuse jobs they see as usurious, demeaning or meaningless (Widerquist, 2013; Standing 2017: 57-61).

Whilst left wing libertarians tend to see social services as complementary to a UBI and freedom enhancing, right wing libertarians see such services as distorting market forces and limiting individual freedom (Standing, 2017: 50-57). Right wing libertarians argue UBI to be a form of welfare that intervenes least in market processes and is non-distortionary. Friedman ambivalently accepts such schemes as the least bad of a bad bunch, arguing that in an ideal world charity would serve as the ultimate form of welfare (see Preiss, 2015: 181). In a similar vein, others have argued for a UBI to replace all existing means tested benefits and all state services (Murray, 2008). This is argued to encourage everyone to go to the market to access healthcare and education which would be good for the economy as well as for individual freedom as the tax burden necessary to fund state services would be reduced.

Feminist critics have argued that UBI does not sufficiently engage with power structures. From a feminist perspective there are concerns that due to UBI's neutral political nature it would have little effect in tackling gender norms (Sage and Patrick, 2016: 28). In contrast, other feminist perspectives have argued that UBI acts as remuneration for unpaid care labour providing women with financial power (Lansley, 2016: 93; Schulz, 2017). Such financial power is unavailable under the patriarchal Beveridge system due to its centering on a male breadwinner (Sloman, 2015: 7). Others have argued that conditionality, tied to means tested benefit schemes, sometimes reinforce gender roles and a switch to universal schemes would free women from such pressures. Saad-Filho points out that the Brazilian means tested cash transfer program, Bolsa Familia is conditional on women performing

caregiving duties which reinforces their position as carers. He recommends a switch to an “unconditional income guarantee program” could liberate women’s ability to gain income from normative gender pressures (Saad-Filho 2015: 1239-1240).

Similarly to feminist perspectives, there are both proponents and opponents from a Marxist point of view. Critical Marxist perspectives worry that UBI carries no inherent structural challenges to capitalist structures and therefore is unlikely to significantly empower working classes (Allen, 2014; see Young, cited in, Jenkins, 2015). Like critical Feminist perspectives, the worry is that UBI is a neutral policy lacking structural engagement with power dynamics. Other authors argue that access to regular income without needing to work opens opportunities for labour to improve its bargaining power and the material value of the policy should not be underestimated (Jenkins, 2015: 266). Wright argues it could be pooled by workers and function as a permanent strike fund in order for labour to defend itself against the oppressive power of capital owners (Wright, 2007).

1.2 Cost

A major topic of debate is the cost of UBI. Many critics worry that the cost would be too great. Some argue it would require a choice between well funded health and education services or a UBI, the former of which would be more desirable (Sage and Patrick, 2016). Related to this argument is the worry that, even if affordable, it would require unacceptably high tax rates that are unlikely to find public support (Hirsch, 2015) or that the UBI would be too modest and unlikely to produce many of its theoretical benefits around social justice and freedom (Major, 2016). Others argue it is simply more cost effective to target the most needy and give only those individuals or families income support rather than the entire population (Gugushvili and Hirsch, 2014; Navarro, 2016; Piachaud, 2016).

In response some authors have pointed out how the fear of the cost of UBI tends to be over inflated. Widerquist argues that this is often due to confusing the relevance of the gross cost with the net cost of the scheme (2017a). The gross cost is calculated by the size of the population times the size of the grant each citizen receives. This is not, however, the important cost. The important cost is the net cost; the gross cost minus any savings or gains made by the switch to the new system. This is an important point to be aware of as many journalists, academics and even writers for the OECD have made this error (see Widerquist, 2017b).

For a US UBI set at the current US poverty line of \$12,000 a year for adults and \$6,000 for children, Widerquist calculates a gross cost of \$3.415 trillion compared to a net cost of \$539 billion which makes up just 2.95% of US GDP (Widerquist, 2017a). This does not mean UBI is cheap nor that the net cost is straightforward to assess but does mean if one focus' only on the gross cost then UBIs expense tends to be over exaggerated.

Exactly what counts as a net saving or net cost is in some cases up for debate. Some authors point to clear net savings such as administrative costs highlighting that conditional benefits require extensive bureaucracy to check eligibility and these administrative costs can be compounded by errors and fraud. Universal schemes, by contrast, do not carry such costs (see Torry 2013: 87-93).

Less obvious savings would be the extent to which is saved by UBI reducing poverty and creating spillovers. For example the 2 year rural Indian pilot showed an improvement in health attributed to greater control of time and resources through the UBI (see Davala et al, 2016: 99-114). If UBI significantly improves health by reducing poverty then it may create

savings in healthcare services. How to accurately measure such savings however is difficult because they are generated as spillovers rather than directly from the UBI policy itself and require researchers to make value judgements.

Simulations of UBI systems for the UK context devised by the CIT and Compass both show a modest UBI scheme is theoretically affordable in conjunction with most currently running means-tested programs. Both simulations consider many means tested benefits as performing the same role as their proposed UBIs. These benefits can be assimilated by the UBI resulting in fewer costs. Both simulations specifically recommend maintaining disability allowance to cover additional costs incurred by disabled people. They also argue for maintaining Council Tax Support and Housing Benefit to manage the unusually high housing costs of the UK. The CIT estimates a 3% increase in income tax and a raise to the top rate of National Insurance Contributions (NIC) to 12% (Torry, 2016a) to fund its scheme. Almost identically, Compass estimate the same increase in NICs but a 2% rise in income tax (Reed and Lansley, 2016) in order to fund its proposed UBI system.

They both point out that their simulations are revenue neutral as they don't create any new taxes but that new funding methods besides income tax could be mobilised to cover costs if policy makers so desired. A range of authors have suggested what forms of additional taxes and funding methods could be used to pay for a UBI. These include; financial transaction taxes, luxury good VAT taxes, common goods consumption taxes (Torry, 2013: 248-252; Van Parijs and Vanderborght, 2017: 153-154), a progressive tax on capital (Lo Vuolo, 2015), sovereign wealth funds (Lansley, 2016) and quantitative easing in proportion to GDP output with UBI not counted as part of the deficit (Crocker, 2015).

1.3 Effectiveness of universal and conditional methods

Many proponents of universal welfare schemes, including UBI, argue that means tested benefits generate numerous undesirable side effects. The behavioural conditionality attached to many benefits is seen as intrusive and paternalistic, threatening people to behave in a way the state sees best as opposed to the individual (Standing, 2008; Standing, 2014: 241, 307; Standing, 2017: 224; Parijs and Vanderborght, 2017: 13). Implicitly the individual is not trusted to behave in the correct way and is believed to require coercion or encouragement to make better choices.

Another issue means tested schemes are criticised for is creating poverty traps. This is where recipients receive more disposable income by remaining on benefits than they do by working in a low paid job (see Torry, 2013: 182; Martin, 2016: 229). This creates a disincentive to find work and encourages benefit dependency. Means tested benefits are also argued to create stigma toward those receiving benefits. This stigma can prevent those eligible from applying for support and results in lower take up (Baumberg et al 2012: 10; Gugushvili and Hirsch, 2014: 2). Stigma can also lead to the demonisation of those on benefits, labeling recipients as “scroungers” or “cheats”. This suspicion can turn on some of the most obviously in need such as those with long term disabilities (Walker, 2012) as well as create feelings of low self esteem and isolation in claimants (see YouGov, 2013).

Besides stigma, means tested schemes are criticised on their inability to effectively target the poor. Due to the large and complex bureaucracy needed to run means tested benefits mistakes are commonplace. Often those in need do not receive the benefit and others receive it when they do not need it. These errors can be quite sizable for example the conditional cash transfer program Bolsa Familia in Brazil, saw 59% of the poor excluded from the program while 49% of its recipients were non-poor. Similarly with Mexico's

conditional cash transfer programme *Oportunidades*; 70% of the poor were excluded from receiving the transfer and 37% receiving it were non-poor (Saad-Filho, 2015: 1238).

A common response from advocates of means testing is that this makes the case for less punitive conditionality and better implementation of targeting rather than an intrinsic problem with means testing itself (Gugushvili and Hirsch, 2014; Hirsch, 2015). They point out that the very egalitarian Nordic countries with low poverty rates achieved this through guaranteed income and work related programs with lightly enforced conditionality (Navarro, 2016).

Although a proponent of a UBI system Haagh agrees with this point. She argues that institutional context within which conditionality sits is of vital importance when considering whether it is helpful or harmful. She praises the less brutal institutional design of the Nordic means tested systems which seek to create motivations to work through incentives rather than compulsions, however, she still believes a well implemented UBI system would be better (Haagh 2015: 65).

A frequent worry for critics of universal schemes is that giving cash to everyone condition free would not sufficiently motivate recipients to find work. A Dalia survey of 11,021 Europeans across 28 countries found this to be the biggest reason to reject the policy, with 52% of those anti-UBI citing this reason (Dalia, 2017). Without the threat of losing benefits claimants might be inclined to simply live off them. This was a worry Friedman cited about UBI when comparing it to tax subsidy schemes (see Preiss 2015: 182). Sage and Patrick cite Gaffney and Aldridge who argue that single parents in the UK only sought to join the labour market in 2008 after their benefits became conditional. Sage and Patrick also cite results from Forget's study of the 5 year Canadian UBI experiment, *Mincome*, that revealed a reduction of work in secondary earners when receiving the grant (2016).

In response, proponents of UBI argue that there is much productive economic activity that goes unpaid that UBI allows people to pursue. Both Bregman and Standing in response to Forget's results of the Mincome experiment argue that the only two groups who significantly reduced their labour supply were new mothers wanting to spend time with their children and students who wished to study further. Both of these labour withdrawals can be said to be productive uses of time with economic value, even if they do not qualify as part of the formal labour market (Bregman 2016: 63-67; Standing 2017: 163).

Other authors argue that giving people unconditional cash seems to have little effect on labour supply. Haagh argues the fear of free cash leading to benefit dependency stems from the neoclassical work-leisure hypothesis that individuals will always prioritise leisure over work if given the choice. She argues there is very little evidence for this hypothesis (2010: 451). In her survey of 350 Brazilian workers, respondents said their biggest motivator was the prospect of ever more interesting work (55%), a significant minority (33%) said stable pay and a minority (5%) said high pay was their primary motive for work (Haagh, 2010).

In support of this position, studies of unconditional cash transfers in both Iran and Ecuador have shown them to have little effect on labour supply (see Salehi-Isfahani and Mostafavi-Dehzoeei, 2016; Mideros and O'Donoghue, 2015). In the Iranian study a small drop in youth activity was offset by an increase in service sector work attributed to expanding businesses. Short term (2 year) pilot studies of a UBI scheme in Namibia and India both showed significant increases in economic activity both on an individual and collective level (Haarman et al 2009; Davala et al 2016: 137-155). Namibia particularly saw a 301% improvement in self-employment (Haarman et al 2009: 73). Such evidence is generally used by proponents to make the case that benefit recipients do not require conditions in order to

be economically active. On aggregate, it is argued, people can be trusted to want to contribute to society and this is seen as strengthening the case for a switch to a UBI system.

2) The Current UK Benefit System

The UK benefit system is vastly complex, currently providing over 30 benefits aimed at supporting parents, low wage families, the disabled, the unemployed, the elderly and the long term ill (DWP, 2010: 7). Universal Credit was introduced in 2013 and is intending to gradually unify six benefits for working age adults in order to simplify administration for claimants and welfare offices, reduce costs and encourage more people into employment (see DWP, 2010a: 1). It has encountered significant delays and will likely be fully implemented by 2022 (Hood and Keiller, 2016: 82).

Currently, claimants can still access older benefits such as income support but these will be gradually phased out. Universal credit aims to replace: income support, income-based jobseeker's allowance, income-related employment and support allowance, housing benefit, child tax credit and working tax credit (Hood and Keiller, 2016: 82) but will maintain council tax support as a separate benefit to help with housing costs.

The reform is predicted to make significant winners and losers within the disabled population by removing tiers of disability benefit (Hood and Keiller, 2016: 83). This will mean a significant group of the working age population formerly classed as disabled will now be deemed as fit for work. It is argued that this will be compensated by a higher rate of Employment and Support Allowance (ibid).

3) Effective Marginal Tax Rates

One of the major justifications for the Universal Credit reform was to increase work incentives and discourage benefit dependency. Benefit dependency was seen as being encouraged due to very high effective marginal tax rates (EMTR) created through the benefit process. EMTRs are calculated by adding the loss of benefits to the rate of tax a benefit claimant transitioning to employment must pay. EMTRs are described as a tax because the loss of benefits has a very similar effect on disposable income as a regular tax does. Under the old UK welfare system these rates came to as high as 96% (DWP, 2010: 7-8) but have been reduced to a high of 64% under the Universal Credit system when not including NICs (Hood and Keiller, 2016: 83). This means, where benefit recipients previously only took home 4p of any additional pound they earned they now take home 36p, if NICs are ignored.

Very high EMTRs are problematic because they create poverty traps. Poverty traps occur when the amount of disposable income a person has available to them is greater through claiming benefits than it is through employment. This encourages people to remain on benefits rather than find employment. This phenomenon occurs because as claimants move into employment their benefits are withdrawn at the same time that their new earnings are taxed. This means the claimant loses income on two fronts; on one side to taxes and the other via income they used to receive through benefits.

Although the Department for Work and Pensions (DWP) officially states EMTR's for Universal Credit users is a maximum of 64%, I agree with Torry and Martin's position that NICs should be included in EMTRs. NICs function effectively the same as any other tax. Although NICs are supposedly used to fund a person's own pension, I would argue that the revenue collected from NICs is put into the same pot the government puts all tax revenue into to fund all of its expenditures and thus no different from any other tax. The DWPs

officially stated EMTR for the Universal Credit system is therefore artificially lowered by ignoring NICs. EMTRs for those on Universal credit are actually as high as 76% when they are included (Martin, 2016: 229). This means for every extra pound earned beyond the benefit threshold previous claimants only take home 24p of their additional earnings (Torry, 2013: 181-183).

For highest UK earners, those earning above £150,000 a year, there is no loss of benefits to consider in conjunction with their payable taxes. Their EMTR is therefore the same as their official tax rate of 47%, including NICs (GovUK, 2017a). It can therefore be deduced that they take home 53p for every additional £1 earned above £150,000. These figures mean that highest earners take home 29% more of their additional earned income that is subject to the highest marginal tax rate than claimants moving into employment.

EMTRs relate to inequality of opportunity because they place a restraint on the less well off without placing a similar restraint on the better off. This makes the race harder for those at the bottom but not for those in the middle or at the top thus increasing the likelihood of a long term income gap emerging. I agree with Atkinson that the tax system is partially about fairness and that if those on low income are expected to bear a high EMTR then "*the marginal tax rate for the rich should be the same as that for those on low incomes* (2016: 628)". Any additional effective taxes created by the benefit system on low income earners should be counterbalanced by applying equivalent tax burdens on the better off. If EMTRs are 76% then the tax rate for the best off should be at least that as well.

If such counter balance is not achieved then the benefit system is in danger of undermining the progressivity of the UK tax system. A progressive tax system is desirable as it balances a number of objectives fairly well. As wealthier people have more money a higher tax on

them generates more total government revenue that all citizens can benefit from.

Progressive taxation also puts a limit on extreme income inequality whilst still allowing highest earners access to a higher total disposable income relative to others. This would seem to be a fair and effective system and what leads Piketty to describe progressive taxation as "*the major twentieth-century innovation in taxation*" (2014: 493).

I would not go so far as to say the current welfare system offsets the progressivity of UK tax system to such an extent as to make it actively regressive; a regressive tax system would involve income redistribution from the less well off to the better off and carry serious implications for income inequality. It does however achieve some similar results to a regressive tax system in the sense that lowest earners transitioning to employment face a huge loss to disposable income that higher earners do not have to tolerate. This impacts inequality of opportunity by creating poverty traps that act as barriers to benefit users improving their position in the labour market. It may also carry implications for income inequality in the long term if significant numbers of benefit users cannot make the transfer to the labour market due to EMTRs.

A UBI system would eliminate a large portion of the EMTR problem encouraging a synergy between the welfare and tax system that is both fairer and more progressive overall. As UBI is never withdrawn, lowest earners would not experience EMTRs. Every additional £1 earned would simply be given on top of their UBI payment. This would help claimants keep a greater portion of their additional earnings and in turn remove poverty traps that create disincentives to enter the labour market. This would increase the likelihood of claimants making a successful transition to the labour market therefore increasing people's opportunities to experience social mobility. UBI makes it more likely for claimants to partake in competitive labour market races.

This would remain the case even if a UBI system maintained some additional supporting means tested benefits. As a UBI could function reasonably well as a replacement for most working age benefits a switch to a UBI system would mean fewer people on means tested benefits and therefore less people subject to high EMTRs.

A possible objection here is that it is not necessary to switch to a UBI system in order to address the EMTR issue. Gugushvili and Hirsch, for example, argue that countries with means tested programs have partly responded to the work disincentive criticism by reducing EMTRs (2016: 13). The Universal Credit system in the UK was itself designed with the intention of reducing EMTRs (see DWP, 2010: 6) and did improve on the old system that carried EMTRs as high as 85% and 90% (Torry, 2013: 181-182).

Gugushvili and Hirsch's argument that countries are able to sufficiently control EMTRs under means tested systems is, however, undermined when one considers that Germany, Finland and Denmark have all failed to reduce their EMTRs below the UK rate (Standing 2017: 77) and despite UK welfare reform lowering the EMTR it is still a huge 76%. This is hardly a glowing achievement. 76% is a massive burden on additional income for low earners and one considered too high for highest earners to bear as their income tax rate is capped at 47%. Attempts at reducing EMTRs in the UK context have been insufficient.

A UBI would be a much bolder and impactful way of avoiding the EMTR problem. It would significantly lower the number of people reliant on means tested benefits allowing a larger number of people to take home more of their additional earnings. This could reduce inequality of opportunity by creating a benefit system that had fewer people subject to disproportionately high EMTRs that punish people for transitioning to employment.

4) Sanctions

Another aspect of the Universal Credit system that affects inequality of opportunity is the extension of conditionality under the new rules implemented in 2010. Sanctions have become tougher under Universal Credit. The DWP document on Universal Credit states; *"We will raise the requirements placed on some individuals and will introduce tougher sanctions to ensure recipients meet their responsibilities"* (DWP 2010: 24). In practice this means that lone parents and the disabled can now be subject to higher level sanctions if they are deemed not to be looking for work. This higher level carries a 91 day to three year suspension of benefits for failing to meet their jobseeker's agreement. These sanctions do not take into account labour market conditions (Martin 2016: 230) and carry a real threat of plunging claimants into poverty without any support at all.

Being trapped in a state of poverty has been shown to have significant negative cognitive effects on people. When economic security is threatened it creates high levels of anxiety. Being in a prolonged state of poverty related anxiety can create a *"scarcity mindset"* where cognitive functions are significantly impaired. A study of Indian farmers post harvest, when financial security was assured, and pre harvest, when financial security was in doubt, found the farmers IQ to be negatively impacted to the same degree as a whole night without sleep (see Standing, 2015: 197).

Critics might respond to the use of such evidence as being only relevant for the third world where absolute poverty is more widespread. They might suggest that such evidence is not applicable in the west where relative poverty is more prevalent and has very different effects to absolute poverty.

There are, however, studies that replicate the finding in wealthy countries. A 2016 US study used the definition of sustained poverty as the percentage of times households fell below 200% of the federal poverty line across the years 1990 - 2010. Those who experienced this level of household income less than a third of the time were classed as “never in poverty”, households experiencing this level up to a third of the time were classed as sometimes in poverty and those above that rate were considered “always in poverty”. Of 3,383 participants defined as being in poverty significant deficits in cognition, particularly processing speed, were discovered (Hazzouri et al., 2016: 3). They found that even those with high levels of education were negatively impacted (ibid: 5) suggesting that the correlation could not be put down to the fact that wealthier people have access to more education. Poverty itself seemed to dampen people's cognition.

Hardline sanctions can only further inequality of opportunity as not only are benefit claimants faced with work disincentives through high EMTRs, they are also likely to suffer stress induced cognitive impairments. Sanctioning claimants into a “*scarcity mindset*” for three years is unlikely to help them make good decisions about how to manage their lives. It is far more likely to lead them into making rash and unconsidered decisions. This is hardly the kind of head space one should have when entering the workforce.

The justifications for sanctions rests on whether one believes they encourage people to pursue employment or not. If sanctions lead to higher employment they may on aggregate reduce inequality of opportunity as sustained employment with working hours over 30 a week remains strongly correlated with social mobility (ESRC, 2012; 4).

Unemployment can be considered voluntary or involuntary. A person either does not wish to work or a person cannot find work because of a lack of good quality jobs. Sanctions might make sense in the case of voluntary unemployment, if people are choosing not to work simply because they do not wish to then a threat can make sense. If people are not working as as an employee or in a self-employed capacity because they cannot find good quality work then a sanction can only exacerbate a person's stress and helplessness.

Deciding whether people are voluntarily or involuntarily unemployed is tricky because it depends on how one defines good quality employment. I believe there is a degree of ambiguity regarding how employment is defined in the UK. The current UK government uses a definition for self employment called "*gainful self-employment*" defined as "*organised, developed, regular, and carried out in expectation of profit.*" (DWP, 2016). It does not provide an explicit definition of "*gainful employment*" but I would argue that it can be inferred from the gainful self-employment definition that gainful employment means: organised, developed, regular work carried out in expectation of receiving at least minimum wage. I have not included a minimum number of hours as zero hour contracts remain legal and they do not guarantee a minimum amount of work although they do guarantee a minimum wage for any hours completed (GovUK, 2015). Both these definitions implicitly revolve around work providing long term financial independence.

If employment does not provide financial independence nor contribute to social mobility there is no justification for the state to pressure claimants into work through sanctions. It first needs to ensure that the labour market can offer good quality employment. From an intuitive glance at the current UK labour market it seems clear that for a significant minority there is no opportunity for good work. There has been a growth in unconventional jobs, both in the UK and OECD, that do not provide financial security. Although the UK has one of the lowest

unemployment rates within the EU at 4.5%, 3.3% lower than the EU average of 7.8% (Eurostat, 2017), the types of jobs that are available at the lower end of the pay scale hardly seem desirable. The OECD acknowledges that in work poverty affects 8% of the working age population across OECD countries due to the creation of non-standard jobs (OECD 2017: 12). A disturbing finding by the Joseph Rowntree Foundation indicates that the UK is significantly above this average for in work poverty, estimating that 12.5% of workers in the UK are in poverty despite employment (JRF, 2016).

It could be inferred from these statistics that the UK has artificially raised its employment rate at the cost of failing to provide good quality work. This would explain why it has a below average employment rate in the EU but an above average rate of in work poverty in the OECD. Further research to conclusively confirm this should be undertaken as there are of course other relevant factors to consider before reaching such a conclusion. The point remains, however, that the UK labour market is not providing quality jobs for significant numbers yet sanctions are being harshly implemented through the Universal Credit reforms despite this. Sanctions in the presence of a dysfunctional labour market are only likely to exacerbate the “*scarcity mindset*” of low income earners by increasing their chances of being pushed into poverty. This can only worsen inequality of opportunity by making it hard for the less well off to make effective decisions in the labour market.

A switch to a UBI system would not make the labour market offer better opportunities to the population however, nor would it force benefit users into ‘*ungainful employment*’ as the current system does through sanctions. A UBI system would guarantee steady access to income whilst the labour market is in disarray and act as a wage buffer for those in jobs that are poorly paid or have unguaranteed hours. This would give recipients more time to look for better quality employment or create their own without the threat of benefit withdrawal.

A UBI system that maintained key means tested benefits would still leave some claimants vulnerable to a degree of benefit withdrawal. These people, however, would still have access to UBI income if they lost additional benefits. This is not the case under the current means tested system. A constant UBI income floor combined with the removal of sanctions could help lessen inequality of opportunity because it would reduce the pressure of being on benefits that can lead to a “*scarcity mindset*”. This could lead claimants to make better choices and increase the likelihood that they improve their position in the labour market.

5) Take Up Rates

This chapter will look at take up rates of benefits in the UK context and argue that means testing has not resulted in effective targeting of the poor. This has been due to two problems; complexity and stigma. These two issues will be looked at separately but it should be understood that they both carry implications for take up rates and that is why they are important for this discussion. I will argue that a switch to a UBI system could offer improvements on both of these issues and thus contribute to reducing inequality of opportunity.

5.1 Complexity

Means tested schemes often become highly complex because they call for extensive bureaucracy. They require investigations into people’s personal lives to confirm eligibility and the use of multiple kinds of benefits to provide specialised support for people in different situations. As said earlier the UK welfare system currently has over 30 benefits, many of these benefits overlap and cancel one another out under different conditions (DWP, 2010:

7). The DWP acknowledged the huge complexity in accessing and administering benefits recommending in 2010 that *“the government should establish a Welfare commission to examine the existing benefits system and model possible alternative structures with the aim of creating a fair but simpler system that claimants and their representatives are able to understand more easily and DWP staff are able to administer more accurately”* (cited in Torry 2013: 86).

Universal Credit is an improvement on the old benefit system; by rolling 6 benefits into one and making one government department responsible for its administration it is significantly less complex. There is still, however, considerably large amounts of bureaucracy to sift through. There are five additional elements to the standard Universal Credit payment and each require separate and extensive evidence to prove eligibility (see Turn2us, 2017). Administrative errors are easy to make both for claimants and welfare officers.

A major problem with these administrative errors is that they can result in heavy punishments for claimants. These punishments can be due to claimants failing to notify benefit offices of changing circumstances or admin errors by welfare officers. If recipients are deemed responsible for disclosing information incorrectly they will have to pay it back. This may put them at risk of financial hardship. It should be noted that these risks are in addition to the harsh sanctions discussed earlier. These risks can prevent people applying for benefits in the first place. As one respondent from a focus group conducted by the University of Kent said *“There’s loads of people who don’t claim for various reasons, one of them being that I think coz they know what it’s like, you’re dealing with like a monolith sort of bureaucracy”* (Baumberg et al., 2012: 10).

A UBI system would help reduce this “*monolith of bureaucracy*” by offering a reduction in complexity. As a direct cash transfer to every individual UBI is very straightforward to administer and requires no form filling or applications. There is also no possibility of mistakes leading to severe punishments for those who use the benefit. This will vastly increase take up rates by reducing the numbers of eligible claimants who miss out due to administrative errors as well as reducing the numbers of claimants who end up facing difficulties associated with overpayment of benefits.

It should be noted that complexity would still remain if any means tested benefits were kept in place under a UBI system. Specific means tested benefits may be desirable for specific contexts such as disability. There is a criticism that the simplicity argument for UBI becomes mute if means testing remains, indeed this was the reason given on a UK government select committee investigating UBI for dismissing it as a potential reform (see Parliament, 2017). I would respond to this claim by arguing a UBI system would still be an improvement on the current system. Universal Credit has not removed any conditionality which is perhaps the most bureaucratic element of welfare provision. A switch to UBI would reduce conditionality greatly. Reducing this complexity would help temper inequality of opportunity by ensuring people have constant access to a means of income support without any chances of withdrawal.

5.2 Stigma

In the UK between 2009-10 it is estimated that, due to stigma, only 64% of eligible claimants took working tax credit and only 62-69% council tax benefit (Gugushvili and Hirsch, 2014: 2). Similarly an Ipsos MORI poll of 2,423 respondents found that 25% of respondents gave at least one stigma related reason for having not claimed benefits (Baumberg et al, 2012: 10).

This is a very significant number of people not accessing support that could help them improve their labour market position. Reducing stigma associated with benefits could help those in vulnerable positions be more willing to use support they are entitled to.

According to research commissioned by Turn2us the biggest portion of stigma felt by claimants was through the process of claiming benefits itself. 46% felt they experienced high levels of stigma arising from the process of claiming benefits whilst stigma associated with how other members of society felt about them as well as how claimants viewed themselves was significantly less (Baumberg et al, 2012: 6-7). The switch to the Universal Credit system will not reduce stigma because it does not fundamentally change the process of claiming benefits. Claimants still have to prove eligibility and undergo strict sanctions and conditionality.

A UBI policy would go a long way in reducing stigma. As Baumberg et al state; "*benefits which are seen as entitlements are also not subject to stigma. The criteria for entitlement may be prior contributions....., or citizenship.*" (2012: 6). UBI is an entitlement via citizenship and would thus not be subject to stigma. Ironically a UBI policy may reach more of the target group for income assistance than a specifically targeted means tested scheme because it removes the stigma problem. This decreases inequality of opportunity as more of the worst off are more likely to access support that can help improve their chances of social mobility.

Complexity and stigma are synergistic because complexity leads to administration errors that can encourage ideas that benefit claimants are cheating the system. If it is perceived that certain groups are receiving more than their fair share of entitlement it can erode social cohesion. This can then pressure the government into creating tougher sanctions to

appease the electorate's fears of 'scroungers'. In turn, this can increase the severity of sanctions which as explained above are problematic for inequality of opportunity.

This does not mean that nobody cheats the benefit system and that societies should turn a blind eye to such behaviour but it is important to point out that a significant degree of benefit misplacement can be attributed to the complexity of the system. Baumberg et al's study points out that accusations of cheating tend to be hugely overestimated by the UK public. They point out that according to a British Attitudes Survey in 2007 the median belief of the percentage of fraudulent applications for disability benefits was 30%. Actual numbers revealed it to be between 1.1% and 1.2%. Similarly in an Ipsos MORI poll in 2012 the median belief of the percentage of fraudulent applications for out of work benefits was 25%. In reality they made up 2% (Baumberg et al, 2012: 29). These figures suggest benefit fraud to be localised to a tiny minority rather than a significant minority and provides evidence to suggest that on aggregate people can be trusted to obey the rules of the UK benefit system.

A switch to a UBI system would reduce the number of people dependent on means tested schemes. This would significantly reduce the number of people failing to access support due to fears of stigma and inaccurate accusations of fraud. As more of the less well off would gain access to income support it could help reduce inequality of opportunity by enabling a greater number of people a better chance of finding a way out of poverty.

6) Effects on Income Distribution

So far a switch to a UBI system has been discussed in terms of how it reduces inequality of opportunity. It has been established that a UBI system can do this in a number of ways: it would likely generate higher take up rates by the worst off due to its administrative simplicity,

lack of sanctions and reduction in number of people dependant on means tested benefits. More people in need of support would receive a payment than under the current system; everyone who was previously avoiding signing on due to stigma and everyone suffering from sanctions would be brought into the fold. If these people successfully improve their position in the labour market it could have some impact on income distribution as a greater number of people might increase their income.

A possible objection against UBI could be raised here that it would not help promote equality of income. If everyone receives the same then the relative wealth of everyone goes up together and there is no increase in the income share for those at the bottom.

In response to this claim a technical point about UBI must be fleshed out. Just as Widerquist shows that there is often confusion about the cost of UBI due to muddling net cost and gross cost (2017b) there is also frequent confusion as to who the main beneficiaries are. Although UBI would be paid to everyone, only those towards the lower end and within the middle of the income distribution make a net increase to their income. This is because the gains of a UBI are offset by the higher rate of tax costs faced by those earning above a certain tax bracket. UBI would not therefore benefit everyone equally, it would primarily benefit those towards the lower end of the income share.

Both the CIT's and Compass' simulations of a revenue neutral UBI system for the UK, discussed earlier, reveal a reduction in the gini coefficient between 0.02 and 0.3 (Torry, 2016a: 8-10; Reed and Lansley, 2016: 17). These simulations suggest that the integration of a UBI policy into the current benefit system could have a minor reduction in income inequality.

The transition to a UBI system would improve income inequality only mildly because it helps the poorest retain more of their additional earnings but it does not redistribute from the wealthiest members of society to the less well off. A UBI system would reduce income inequality by taking less from the poor rather than redistributing from the rich to the poor. That said, a UBI system is consistent with additional measures that can achieve more active redistribution. For example, high progressive income tax rates in the realms of 65% and above (Atkinson, 2014: 627-628; Piketty 2014: 512) as well as wealth taxes such as a global tax on capital (Piketty, 2014: 515-518) could help reduce income inequality as well as fund a sustainable UBI. The combination of a UBI system with such tax suggestions could make a big impact on income inequality. As Lo Vuolo argues “*a progressive tax should be included in the very definition of basic income, in order to clarify how the proposal is a powerful tool to attack inequality along with other measures*” (2015: 37).

These tax measures could be a welcome addition to the current system. A switch to a UBI system in conjunction with these measures however seems more desirable as discussed in the previous chapters, it would be more likely to generate better work incentives, more security and less stigma that together contribute to less inequality of opportunity. This would be a distinct advantage over the current Universal Credit system.

It should be noted that the Compass simulation shows a full UBI system, one that does not maintain key means tested benefits currently in place, would result in big losses of income for some of the worst off families (Reed and Lansley, 2016: 28-30). This concern is also raised by the CIT in regard to the unusually high house prices in the UK which requires the maintenance of both housing benefit and council tax support to avoid excessive losses of income for those near the bottom of the income distribution (CIT, 2015: 10-11). The

Universal Credit reforms also note the housing issue by maintaining council tax support as a separate benefit from the other six main benefits it will ultimately unify.

This emphasises the importance of integrating a UBI policy into the current means tested system rather than outright replacing all means tested benefits with a UBI. Although UBI carries numerous theoretical benefits it also carries the danger of failing to positively impact either inequality or poverty for the worst off if implemented thoughtlessly. This seems to be the fundamental point missed by writers such as Murray who argue that UBI should replace all aspects of the welfare state including services (see 2008). Not only would this ignore economies of scale produced by services that a UBI could not create, it also ignores the positive side of some means tested benefits given an appropriate context for example high housing prices in the UK. This should act as a warning for activists and writers wishing to put UBI forth as a silver bullet reform. If advocates are seeking to use UBI to offer solutions to income inequality it will likely require a bundle of supporting reforms that fill in the gaps a UBI policy could not satisfy alone.

Conclusion

This dissertation has sought to highlight the extent to which UBI as a welfare reform could offer solutions to inequality in the UK context. It has shown that UBI offers pronounced advantages over the current system in mitigating inequality of opportunity. This is achieved by enabling claimants to access larger amounts of disposable income as well as reducing the complex, punitive and stigma inducing elements of the current system, which contribute to creating unnecessary barriers for claimants making it far harder for them to reenter the labour market. The current system places disproportionate and draconian psychological,

social and economic pressure on benefit users. UBI would go a long way to relieve such pressures as well providing superior incentives for labour market participation.

In terms of income redistribution, UBI on its own offers a small improvement. This is likely due to UBI's focus on maximising freedom from restraints for the worst off rather than being inherently structural or redistributive in its approach to inequality. UBI is however compatible with further measures, such as high and progressive income taxation and new taxes on wealth, that could have big impacts on income redistribution. Due to UBIs hugely positive effects on inequality of opportunity, if it were combined with such measures, a UBI system could offer enormous improvements to inequality. A coherent UBI system should be taken seriously by the UK.

The UK should consider trials similar to those undergone in Canada and undergoing in Finland or else take steps towards more universalised income support. The current system is needlessly cruel and only exacerbates inequality processes that are currently under popular public scrutiny. The public are demanding reform so the time is opportune to try something different.

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