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A commentary from the Retirement Policy and Research Centre

Universal basic income: be careful what you wish for

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A Universal Basic Income sounds simple and appealing

But any Universal Basic Income (UBI) New Zealand implements would likely be far too low, helping all the wrong people and leaving those in desperate need even worse off. Adapting what we already have in place is a much safer approach.

The Covid-19 economic recession is intensifying the vast inequalities in income and wealth evident both locally and internationally. As jobs disappear and wage subsidies run out, many commentators argue it is the perfect time to introduce a UBI.

The idea is to replace the mishmash of hard-to-access, highly means-tested or targeted benefits with a simple unconditional individual weekly payment for all. Sounds so simple and appealing.

Less understood, is that a UBI is much, much more expensive than the welfare payments it replaces. High tax rates on earned income are needed to fund it.

In New Zealand, over recent weeks, various petitions have been launched: Bernard Hickey has called for a NZ Super level payment for every adult and child, Sue Bradford argued for taking the UBI seriously and Grant Robertson is considering UBI to ward off economic peril.

But there are always grave dangers in making major social policy on the hoof. We have had experiences of this and need only to think back to the 1991 recession when austerity policies of ill-conceived benefit cuts still impact 30 years on.

Be careful what you wish for

Advocates might seek their cherished UBI, but they should be careful what they wish for. If implemented, any UBI is likely to be far too low. It would help all the wrong people and leave those in desperate need even worse off. Further, if implemented now, it would run the risk of being confused with the necessary immediate, and hopefully temporary, policies for those who have lost jobs in the Covid-19 crisis.

Advocates need to acknowledge that if the radical path of a comprehensive UBI for *every* citizen were taken, there would need to be a dramatically increased progressive tax structure to pay for it.

But there is no need for the untried and untested. Instead, adapting what is already in place is a safer approach and more likely to endure. For working age people without paid work, the welfare system could be moved closer to the UBI concept. Access to benefits could be more automatic, benefits individualised, benefit rates dramatically increased and abatements for earning extra income reduced.

For those over 65 we already have a form of UBI. Having said that, NZ Super is not a proper UBI because the tax scale is so flat that wealthiest superannuitants get not much less than the worst off. This makes it very expensive and vulnerable to criticism of unsustainability.

The Retirement Policy and Research Centre (RPRC) outlined in a paper on Intergenerational impacts: the sustainability of New Zealand Superannuation how NZ Super could be converted into a proper UBI with a separate tax scale for income superannuitants receive.

Over time this UBI for those over 65 could be extended to other groups, such as sole parents with young children, or to people in their late 50s and 60s who are so badly served by the current Supported Living Payment or the Jobseeker Benefit.

Supporting children

For children, many of us nostalgically remember an old UBI - the old universal Family Benefit. But do we also remember that during its heyday in the 1980s the top tax rate was 60 percent and even 66 percent for a time? And while the Family Benefit could be capitalised for housing, its prime purpose was to support mothers to take care of children's needs. High income families paid for it with very high taxes.

What is harder to grasp, is that we have a UBI for children already. Thus many higher income families affected by Covid-19 related job loss are finding there is a substantial income cushion for their children that is readily available through IRD. It's called the Family Tax Credit.

Why is the Family Tax Credit best understood as a UBI? All caregivers get a non-taxable grant of around $200 a week for their first child (including, as it should, the In Work Tax Credit), and around another $100 for subsequent children. The trade-off is parents are put on a separate tax scale whereby all income over $42,700 is taxed at an additional 25 percent. For example, a two-child family has $300 paid to the caregiver each week. At an income of $105,000, their extra tax ($15,600) cancels out their children's UBI ($15,600).

We don't recognise it as a UBI because instead of allowing the caregiver to keep the full Family Tax Credit and parents pay the higher tax, the IRD cleverly reduces the Family Tax Credit as income increases. That is a choice.

If the Family Tax Credit were paid for all children as an upfront UBI, parents would go onto a separate tax scale that replicates what we do now. This would make the higher tax rates of up to 58 percent more explicit instead of only dimly perceived. If done this way, some advantages may follow, for example it may be possible to capitalise the FTC for housing in certain cases. The separate tax scale could be made less punitive over time and more like that for the separate tax scale for superannuitants' UBI.

In the crisis, instead of simplistic slogans, let's ensure that we look afresh at existing policies and adjust them appropriately and consistently with UBI principles: adequacy, individual treatment, non-discrimination, fiscal sustainability and simplicity.

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