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Policy Brief

Guaranteeing incomes: modes of delivery*

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Abstract

In order to cope with the increasingly severe reduction in economic activity in the UK, guaranteeing the incomes of all those who are eligible for in-work or out-of-work benefits is rapidly becoming a necessary policy lever.

Payments need to be fast, need to reach as many people as possible in all sorts of employment situations, and need to reach the most vulnerable to the present crisis first and foremost.

This document is not a calculation of how much an unconditional income scheme or negative income tax scheme would cost. What it does is set out are four methods to implement such a scheme at whatever level the government sees fit.

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Introduction

In order to cope with the increasingly severe reduction in economic activity in the UK, guaranteeing the incomes of all those who are eligible for in-work or out-of-work benefits is rapidly becoming an essential policy lever. The US government is considering this, and schemes approximating an unconditional income have already been implemented in Italy and the Netherlands, while Germany, Denmark and Sweden have introduced wage subsidies.

When deciding on how best to deliver guaranteed incomes to the UK population, several concerns need to be factored in. Payments need to be fast, need to reach as many people as possible in all sorts of employment situations, and need to reach the most vulnerable to the present crisis first and foremost.

This document is not a calculation of how much an unconditional income scheme or negative income tax scheme would cost. What it does is set out four methods to implement such a scheme at whatever income level the government sees fit.

The cash transfers involved in guaranteeing incomes should be seen as part of the fiscal response to the crisis: the purpose is to prevent immediate hardship and to prevent the destruction of productive capacity due to layoffs and bankruptcies. These measures are not therefore intended as a demand stimulus, and should not be implemented using direct monetary tools such as helicopter drops. That said, it will be necessary for coordination between the Bank of England and the Treasury to ensure implementation in an orderly fashion.

No one method will meet all the requirements, and so we recommend that more than one of these methods is utilised in order to get maximum reach in the shortest possible time. These methods can however be used in sequence, starting with widely distributed unconditional cash transfers, while working towards more sophisticated targeted systems. Ultimately, a database - held at HMRC - of bank accounts for every individual in the country will need to be constructed and aligned with other fiscal data such as tax codes and national insurance numbers; each of the following methods can each be used to help that broader project.

Method 1: HMRC negative taxation

The first way to guarantee incomes would involve bank transfers directly from government accounts to those adults whose bank details are known to HMRC. This method would primarily target those who are self-employed, many of whom are already struggling as a direct result of the current crisis. It could also be extended to those whose PAYE details are known to HMRC and those who receive child benefit. For those who are self-employed, all tax bills for 2020 should also be suspended for the foreseeable.

Method 2: Utilising payroll

Method 1 will exclude large numbers of people for whom HMRC does not hold up-to-date bank account details, most likely because they only pay tax via PAYE. A second way to guarantee income would therefore target employees via PAYE.

Immediate impact: cash transfers

Direct cash transfers of fixed amounts per person could be made immediately via company payrolls. HMRC should have details of numbers of employees per business, so could make immediate transfers to businesses, to be disbursed via payroll. These transfers would be conditional on firms keeping their payroll operations functioning so that an unconditional weekly payment can be delivered to all employees. The costs - including the labour of maintaining payroll operations - could be carried by the state, with one potential option being a time-limited ban on lay-offs.

Further down the line: Tax rebates relative to firms' wage bill

It should not be much more complex to provide tax rebates to firms calculated on the basis of their past PAYE tax payments and total wage bills. This information is already held at HMRC. For example, firms could immediately claim a rebate equal to their previous two years tax payments, or 75% of their previous years wage bill. These rebates would transfer cash to company balance sheets, at a scale proportional to the amounts required, on the condition that no staff are laid off and wages continue to be paid. This would likely involve some reductions in pay (the system introduced in Denmark guarantees 75% of current wages). These transfers could easily be subsequently reversed for those firms that are able to repay. Firms that are simply unable to continue normal operations and face inevitable layoffs and/or bankruptcy should be required to provide the bank details of those laid off to HMRC, so direct payments can be made as in Method 1.

Method 3: Utilising social security

Methods 1 and 2 could be combined with a time-limited removal of means-testing from current social security payments, to additionally cover unemployed persons, those receiving personal independence payment (PIP), and others without a current employer such as university students, many of whom rely on summer employment to make ends meet. Indeed, this should really be used in any implementation of a universal income, as it is completely unjustifiable in the current crisis to subject jobseekers or those with disabilities to the additional stress of having to apply for means-tested benefits. The most vulnerable members in society are significantly affected by this pandemic, and we are morally obliged to care for them.

Method 4: Utilising the banks

Finally, it is inevitable that some people will be missed by methods 1 – 3, either because they work on zero hour contracts and have already been laid off, are out of work but not claiming benefits, or have not been earning enough to pay tax. In this case, HMRC could liaise with the major current account providers in the UK:

- HSBC
- Royal Bank of Scotland,
- Lloyds
- Barclays
- Santander
- Nationwide Building Society

Over 90% of adults in Great Britain have a current account, and just under 90% of current accounts are held with these six banks. A subset of those individuals not covered by methods 1 – 3 could therefore be paid a universal income directly by their bank, with the total amounts payable being reimbursed by the Treasury in the first instance.

As HMRC has the power to request bank details from commercial banks and building societies via 'third party notices', it should also be possible for the government to provide banks with personal details for the purposes of universal income payments. While one in four adults hold more than one current account, these are generally the more affluent members of society and are therefore unlikely to be targeted by this method. Over time, HMRC will collate a database of bank accounts, aligned with tax data, and will be able to directly target a growing number of individuals directly, while detecting individuals with multiple accounts and so on.

For the 8-9% of the population who do not have bank accounts, post offices should be repurposed to deliver cash over the counter, provisional on some form of identification. Another option would be to outlaw gambling, both online and offline, and turn all bookmakers into cash tellers - which would utilise existing infrastructure that already reaches many people.

Possible income tax changes down the line?

The universalist approach considered here allows a rapid rollout of cash payments to those people in society that need them most. However, this approach also means that some people could receive universal income payments that do not require them, either because their incomes are unaffected by the crisis or do not fall below a certain acceptable minimum. Should the government wish to recoup unconditional income payments from those who do not require them – and there is an argument for this, for reasons of equity – this could be straightforwardly achieved by the imposition of a progressive tax rate on this type of income. Down the line, a 100% tax rate on unconditional income payments could be levied on high earners - e.g. those individuals who earn over around £80,000 (i.e. are in the top 5% or earners) say - in the 2020- 21 tax year or when appropriate.

Self-isolation

If there is a case where someone is self-isolating and cannot utilise funds that would be placed in their bank account, then a 'nominated person' scheme could be made available in which a close friend or relation is nominated to receive universal income payments on behalf of someone in self-isolation

Spreading the word

A nationwide campaign of television and social media advertisements, as well as email notifications should be deployed, notifying the population as to what they are entitled to and how they can receive the unconditional payment as quickly as possible. Initiatives to contact those who are homeless, to set them up with an account and even to help them to an ATM if they are having trouble should be deployed.

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