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Universal basic income and Covid-19

Dr Rajiv Prabhakar

Is a basic income both affordable and desirable?

The Covid-19 crisis promises to be as big a shock to the UK economy as the 2007-08 financial crisis. The Office for Budget Responsibility recently published a scenario of the likely economic impact of the coronavirus shock to the economy. Making a number of assumptions, it suggested that real national income would fall by about a third in the second quarter of 2020. Public sector net borrowing would rise to about 14 per cent of national income, and this would be the highest annual deficit since the second world war.¹

One idea for relieving the economic effects of the crisis is to implement a universal basic income. A basic income promises: 'regular, non-means-tested cash transfers to all residents of a political territory on an individual basis, without means-test or work requirement'.² A universal basic income has five key parts, namely, that it: is regular; is paid in cash; is provided to the individual; is universal with no means test; and is unconditional with no requirement to work or seek work.³

Long-standing supporters of a basic income, such as Guy Standing, call for this policy to help people cope with the economic fallout of the global pandemic.⁴ This piece considers whether Covid-19 affects two key objections to a universal basic income among the left: adequacy and opportunity cost.

- 1 Office for Budget Responsibility (2020) *Commentary on the OBR coronavirus reference scenario*. https://cdn.obr.uk/Coronavirus_reference_scenario_commentary.pdf, accessed 22/4/2020
- 2 Haagh L (2019) 'The Political Economy of Governance Capacity and Institutional Change: The Case of Basic Income Security Reform in European Welfare States' in *Social Policy and Society*, 18(2): 243-263, p243.
- 3 Piachaud D (2018) 'Basic income: confusion, claims and choices' in *Journal of Poverty and Social Justice*, 26(3): 299-314; Haagh (2019)
- 4 Standing G (2020) *Coronavirus has shown us why we urgently need to make a basic income a reality*. <https://www.weforum.org/agenda/2020/04/coronavirus-made-basic-income-vital/>, accessed 22/4/2020

THE TWIN OBJECTIONS

A wide range of arguments have been advanced in favour of a universal basic income. One set of arguments are rooted in liberal thought and insist that a universal basic income is needed to provide real freedom for all.⁵ Other strands build on sociology or the changing nature of the economy. One vogue links the case for a universal basic income to the impact of automation or robots on the economy. Automation is thought to threaten all types of jobs in the economy, from the use of robots to perform routine tasks on factory production lines to using computer algorithms to provide professional services such as legal advice. Although automation might displace jobs, proponents argue, it may also create surplus within the economy. The idea then is to spread this surplus throughout society through a universal basic income.⁶

“A full universal basic income has yet to be implemented in the world. Much existing evidence draws from pilots of partial basic income schemes in places such as Finland, as well as policy simulations”

This piece considers whether Covid-19 affects two key objections to a full universal basic income among the left. One objection is about the adequacy of a universal basic income in tackling poverty and inequality. A full universal basic income has yet to be implemented in the world.⁷ Much existing evidence draws from pilots of partial basic income schemes in places such as Finland, as well as policy simulations. Martinelli conducted one simulation for the UK, and summarised the nub of the issue when he wrote: “an affordable UBI is inadequate, and an adequate UBI is unaffordable”.⁸

5 Van Parijs P (1997) *Real freedom for all: What (if anything) can justify capitalism?*, Oxford University Press

6 Susskind D (2020a) *A World Without Work. Technology, Automation and How We Should Respond*, Allen Lane; Susskind D (2020b), *Universal Basic Income is an affordable and feasible response to coronavirus*. <https://www.ft.com/content/927d28e0-6847-11ea-a6ac-9122541af204>, accessed 27/4/2020

7 Piachaud (2018)

8 Martinelli L (2017) *Assessing the case for a universal Basic Income in the UK*, Bath: Institute for Policy Research. https://www.bath.ac.uk/publications/assessing-the-case-for-a-universal-basic-income-in-the-uk/attachments/basic_income_policy_brief.pdf, accessed 7/5/2020.

A second objection is that there are alternative policies that are better for relieving poverty. Indeed, critics claim that a universal basic income distracts time and resources from pursuing these other policies. Piachaud summarises this view: “What is perhaps most frustrating for those who see little attraction in pursuing a basic income is that, while it is part of a spectrum of social protection and social security measures, giving it pre-eminence diverts from the task of promoting more feasible and sensible reforms. There is a desperate need for more investment in human capital for the least advantaged and for more equal opportunities for all.”⁹

A range of arguments might be advanced both for and against the various claims that Piachaud makes in the above quotation (for example, the attention paid to investment in human capital for the least advantaged over a universal basic income). This piece does not delve into those arguments here as the focus is on the impact that Covid-19 has on a universal basic income. But the above quotation helps place the arguments about a universal basic income and Covid-19 within a broader context and set of debates.

EMERGENCY SUPPORT AND A BASIC INCOME

The global pandemic has already prompted some sceptics to rethink their views on a universal basic income.¹⁰ Covid-19 presents the need for rapid and immediate relief. It may be very complex to devise rapid and targeted help, and so universal income payments have the virtue of simplicity.

This has been taken on board in the government response. For example, the UK government’s Coronavirus Job Retention Scheme provides a taxable grant to employers for furloughed employees worth 80 per cent of the employee’s wage cost (up to £2,500 a month).¹¹ A similar package of support is also provided to the self-employed. In the US, President Donald Trump signed an act promising \$2 trillion of federal government help to households and businesses. Among the measures enacted are a set of

9 Piachaud (2018) pp312-313

10 Bush S (2020) *Covid-19 has changed my thinking on universal basic income*, at <https://www.newstatesman.com/politics/economy/2020/04/covid-19-universal-basic-income-benefits-welfare>, accessed 27/4/2020; Susskind (2020b)

11 Office for Budget Responsibility (2020)

economic impact payments that amount to \$1,200 per person for one year and up to \$500 for each child under 16 years of age.¹²

These steps carry some features of a basic income – they provide emergency income support to individuals. But they are neither regular nor universal. They do not promise regular cash payments after the crisis is over.

“Research suggests that the low-paid are among those hit worst by the coronavirus lockdown”

UNIVERSALITY VERSUS TARGETING

Research suggests that the low-paid are among those hit worst by the coronavirus lockdown. One-third of employees in the bottom tenth of the earnings distribution work in sectors that are shut down, compared with 5 per cent of those in top tenth of the earnings distribution. Furthermore, women are more badly affected than men, with 17 per cent of female employees working in sectors that are shut down compared to 13 per cent of male employees.¹³

Many households are facing falls in income, but poorer households are less able to cope with drops in income because a larger part of their household budget is spent on essential items than richer households. On average, the poorest fifth of households spend around 55 per cent of their budgets on essential items, while the richest fifth spent around 39 per cent. This pattern is reversed for items that have been affected by social distancing measures such as travel, leisure or eating out.¹⁴

Clearly, poorer households are in greater need of help than richer ones in coping with Covid-19. This suggests that targeted income support may be the priority rather than universal income payments.

12 Payments are tapered off for those on high incomes, with no payments for those who have an income of more than \$99,000 a year. Exclusions also exist for others, such as those without a valid social security number. See: Inland Revenue Service (2020) *Economic impact payments: What you need to know*. <https://www.irs.gov/newsroom/economic-impact-payments-what-you-need-to-know>, accessed 22/4/2020.

13 Joyce R and Xu X (2020) *Sector shut-downs during the coronavirus crisis affect the youngest and lowest paid workers, and women, the most*. <https://www.ifs.org.uk/publications/14797>, accessed 27/4/2020

14 Crawford R, Davenport A, Joyce R and Levell P (2020) *Household spending and coronavirus*. <https://www.ifs.org.uk/publications/14795>, accessed 24/4/2020

DOES COVID-19 AFFECT THE AFFORDABILITY OBJECTION?

Affordability is at the heart of the adequacy objection. This objection might make more sense in usual times. The state has embarked on a staggering amount of public spending that deviates from the norm during peacetime. Chancellor Rishi Sunak announced a package of support for businesses and households that amounts to £330 billion, or around 15 per cent of national income.¹⁵

“Government spending here arose from a very specific set of conditions that, one hopes, are unlikely to be repeated for some time”

At first sight, Covid-19 seems to have enlarged the realm of the possible for public spending. The immediate priority is to provide emergency help, and this has entailed mass state spending. One might claim that previous ideas about what is unaffordable no longer hold. According to this argument, the coronavirus crisis has shown the extent to which government spending is driven by political choices. A universal basic income might therefore be deemed to be affordable.

One might counter, though, that it is very difficult to draw general lessons from the exceptional nature of Covid-19. Government spending here arose from a very specific set of conditions that, one hopes, are unlikely to be repeated for some time. The 2007-08 financial crisis ushered in a decade of austerity. A Conservative government charged with dealing with the aftermath of Covid-19 might make similar fiscal choices, and this is without taking account on the pressures on public finances from Brexit.

This alternative view offers a gloomier reading about the affordability of a universal basic income. While it is true that the bounds of government spending may be greater than often is presented in policy debates, it is unclear whether the Covid-19 crisis will seriously weaken the view that an adequate universal basic income is unaffordable. Again, it is likely that the best prospect is for a time limited scheme of emergency payments rather than a permanent income stream.

15 HM Treasury (2020) *How to access government financial support if you or your business has been affected by COVID-19*. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873676/Covid-19_fact_sheet_18_March.pdf, accessed 23/3/2020

UNIVERSAL BASIC SERVICES OR UNIVERSAL BASIC INCOME?

The second objection to a universal basic income asks whether there are better alternatives for relieving poverty.

One such alternative is universal basic services. The pandemic has made clear which services are deemed to be essential in a modern economy. The UK government published a list of key workers who are allowed to travel to their normal place of work during the crisis. These included those working in health services; transport; food supply; the police; and those working in utilities such as electricity, gas or water.¹⁶

These key worker sectors overlap considerably with calls for a welfare state built around universal basic services.¹⁷ There are seven core services in the model of universal basic services, namely: health care; education; shelter; food; transport; legal and democracy; and information. The aim is for these services to be publicly funded and be free at the point of delivery. Some services are familiar and are already provided in the welfare state such as the National Health Service.

Other services are more novel. For example, an information service would provide free basic phone and internet access to all citizens. This proposal overlaps with the promise made in Labour's 2019 general election manifesto to provide free broadband for all,¹⁸ a pledge which was derided at the time in much of the media and public discussions. (Arguably, one failing of the manifesto was that it did not embed the broadband idea in a supporting policy approach such as universal basic services).

Some parts of universal basic services are more useful than others in dealing with the fall-out of Covid-19. Health care is an obvious priority. In the early stages of the crisis, the UK government moved fairly quickly to promise extra money for the NHS to help it cope with the coronavirus. By mid-April, the UK government had also pledged around £15.5 billion of extra funding for the NHS to help it cope with coronavirus.¹⁹

16 Cabinet Office and Department for Education (2020) *Guidance for schools, childcare providers, colleges and local authorities in England on maintaining educational provision*. <https://www.gov.uk/government/publications/coronavirus-covid-19-maintaining-educational-provision/guidance-for-schools-colleges-and-local-authorities-on-maintaining-educational-provision>, accessed 3/4/2020

17 Social Prosperity Network (2017) *Social Prosperity for the Future: A Proposal for Universal Basic Services*, pp 9-16. https://www.ucl.ac.uk/bartlett/igp/sites/bartlett/files/universal_basic_services_-_the_institute_for_global_prosperity_.pdf, accessed 7/5/2020

18 Labour Party (2019) *It's Time for Real Change: The Labour Party Manifesto 2019*. <https://labour.org.uk/wp-content/uploads/2019/11/Real-Change-Labour-Manifesto-2019.pdf>, accessed 23/4/2020

19 Office for Budget Responsibility (2020)

“some aspects of a universal basic services approach are probably a greater priority at the moment than a universal basic income. But there is also a case for emergency income payments to help people and households cope with the immediate economic shocks from Covid-19”

The Covid-19 crisis might also suggest that greater weight is now placed on information and access to the internet. Arguably, this rehabilitates Labour’s pledge to deliver free broadband at the 2019 election, as it became clear early on that there was a ‘digital divide’ faced by some vulnerable groups who could not access the internet at home.

Schools were closed prior to the official lockdown. The education of schoolchildren depends largely upon them being able to access online lessons or homework from school. Evidence from Lloyds Bank Consumer Digital Index reports that in 2018, 700,000 11 to 18 year olds (12 per cent) have no internet access at home through a computer or tablet.²⁰ Similarly, in the official lockdown period, employees who could work from home were instructed to do so. But the capacity to work also depends on access to the internet. And for the retired who are staying at home, the internet is a way for them to maintain social contacts.

For these reasons, some aspects of a universal basic services approach are probably a greater priority at the moment than a universal basic income. But there is also a case for emergency income payments to help people and households cope with the immediate economic shocks from Covid-19. The questions of the best mix of universal basic services and emergency income payments to react to the crisis remains open.

CONCLUSION

Covid-19 has caused a major shock to the economy. As politicians and policymakers grapple with its challenges, one initial response has been to refuel calls for a universal basic income. This piece suggests that, despite the flurry of interest, Covid-19 is unlikely to change the core arguments over a universal basic income. At best, the coronavirus makes a case for

20 Lloyds Bank (2018) *UK Consumer Digital Index.*, accessed 27/4/2020 https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whathappening/LB-Consumer-Digital-Index-2018-Report.pdf

temporary emergency income payments. Turning these temporary payments into permanent ones requires engaging with the more usual arguments over a basic income heard in more usual times. Questions remain about the best mix of universal basic services and emergency income payments for reacting to the crisis, with one priority now being to address a digital divide.

Dr Rajiv Prabhakar is a senior lecturer in personal finance at The Open University and author of *Financial Inclusion: critique and alternatives*, to be published by Policy Press in 2021.