

Universal Basic Income

How and how much?



What level could a UBI be set at?

To achieve the benefits of having a UBI described in the first of this series of papers, a UBI should be set at a level that allows people to survive without having to rely on paid work. In their submission to a recent Senate Inquiry, Dr Ben Spies-Butcher and Troy Henderson argue that the bare minimum level a UBI could be set at would be the current rate of Newstart Allowance¹ (\$545 per fortnight²). As Spies-Butcher and Henderson, and even the Business Council of Australia and KPMG, have argued, the current rate of Newstart Allowance is insufficient and should be increased by at least \$50 per week.³ A potential starting point for discussion about what rate a UBI could be set at could be the weekly rate of Newstart + \$75, or around \$350 per week for individuals.

It is difficult to see how even \$350 per week would be enough for someone living in a major Australian city to survive on. Recent research suggests that an adequate weekly income for a single adult in Australia is at least \$434 per week.⁴ This demonstrates why a UBI would need to be part of a broader suite of measures to reduce the cost of living. In concert with efforts to reduce the cost of large household expenditures such as rent and childcare, a UBI of \$350 per week could be a suitable level.

DISCUSSION POINTS

What is a reasonable level to set a UBI at?

What supportive policies would be required to enable people to manage?

How could a basic income be paid? UBI vs NIT

A confusing aspect of discussions about basic income is the debate between two different models of basic income, namely universal basic income and a negative income tax (NIT). Under a UBI, everyone, including those on high incomes, would receive an income from the government paid into their bank account. People on high incomes would pay more tax than they receive in return from the UBI, making them net contributors to the scheme.⁵

Under a NIT, people would only receive a payment up to a certain threshold, and above that amount they would not receive a basic income at all. Either model can result in the same amount of basic income being paid for a given level of taxable income, but the political outcomes of each model are likely to be very different. NIT recipients would likely be as stigmatised as Newstart recipients are now, potentially making a NIT less politically sustainable. A UBI would be more likely to attract widespread political support because everyone would receive it—meaning that it may be more politically sustainable and could potentially be more generous.

DISCUSSION POINTS

Is there merit in examining an NIT approach? What benefits would be lost?

1 Spies-Butcher, B. and Henderson, T. 2018, p.3, 'Towards Basic Income in Australia', submission to Senate Select Committee on the Future of Work and Workers, <https://www.aph.gov.au/DocumentStore.ashx?id=4da6544d-2072-4682-bb3d-75186c9347b1&subId=563280>.

2 Department of Human Services 2018, 'Newstart Allowance: How much can you get', <https://www.humanservices.gov.au/individuals/services/centrelink/newstart-allowance/how-much-you-can-get>.

3 Australian Council of Social Services 2016, 'KPMG repeats its call for an increase to Newstart', https://www.acoss.org.au/media_release/kpmg-repeats-its-call-for-an-increase-to-newstart/.

4 Saunders, P. and Bedford M. 2017, 'New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians: Summary Report', <http://unsworks.unsw.edu.au/fapi/datastream/unsworks:46141/binaaacbcf3-915f-40bc-a70f-2052746ab643?view=true>.

5 Santens, S. 2014, 'Negative Income Tax (NIT) and Unconditional Basic Income (UBI): What makes them the same and what makes them different?', <http://www.scottssantens.com/negative-income-tax-nit-and-unconditional-basic-income-ubi-what-makes-them-the-same-and-what-makes-them-different>.

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conversation starter



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How can we afford a UBI?

A common mistake that people make when working out how much a UBI would cost is to assume that the real cost of a UBI is simply the dollar cost of the payment multiplied by the number of people who would receive it. As Karl Widerquist points out, the true cost of UBI is the net cost—that is, the net increase in taxes on taxpayers (or the net decrease in government spending), or the amount of money that it redistributes. Following this line of thought, the true cost of a UBI in Australia is not nearly so high as Labor MP Andrew Leigh's estimate of 23% of GDP⁶—perhaps only a third of this.

While there are currently a number of researchers working on developing detailed costings for UBI in Australia, so far not much of this research has been published. Associate Professor Ben Phillips from ANU recently published a short research note modelling the costs of a \$23,000 p.a. UBI. His proposal demonstrates that it is possible to fund a budget neutral UBI by relying on income tax alone, through scrapping the income tax threshold, increasing the first tax bracket to 33% and increasing the top tax bracket to 78%.⁷ There are many ways that a UBI could be funded. Reintroducing an inheritance tax,⁸ making corporations pay a fairer share of tax, reducing military funding, or reintroducing a carbon tax are just some of the other areas that could be look at in deciding how to fund a UBI. Broadly, the affordability of a UBI is more a political question than an economic one.

DISCUSSION POINTS

What taxation mechanisms could be introduced to help fund a UBI?

What savings could be found to help fund a UBI?

- 6 Leigh, A. 2017, 'Speech—How Can We Reduce Inequality?—ANU Crawford School of Public Policy', April 20, http://csmr.cass.anu.edu.au/sites/default/files/docs/CSRM_Research_Note_Basic_Income_final.pdf.
- 7 Phillips, B. 2018, p. 3, 'Research Note: Modelling a Basic Income for Australia—simple example of a universal pension funded by increased personal income taxation' April, http://csmr.cass.anu.edu.au/sites/default/files/docs/CSRM_Research_Note_Basic_Income_final.pdf.
- 8 Stilwell, F. 2016, p. 49, 'A Universal Basic Income: Economic Considerations', in: *Can Less Work Be More Fair? A discussion paper on Universal Basic Income and shorter working week*, The Green Institute, December 2016.

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