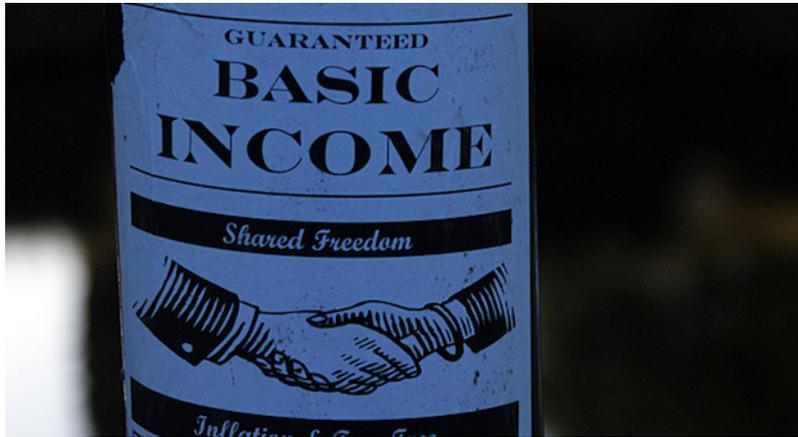


[The ideal welfare system is a basic income](#) [1]

Written by [Sam Bowman](#) [2] | Monday 25 November 2013



The British government spends more on welfare than it does on anything else apart from healthcare. The benefits system is arcane and unwieldy, a mish-mash of disparate attempts to address different social problems in a piecemeal fashion. It creates perverse incentives for those on it, such as people stuck in a 'benefits trap' where they lose almost as much money in benefits by working as they are earning, and distorts entire markets by inflating prices, as housing benefit does to the housing market.

Most people agree that the system is broken, though solutions differ. The Universal Credit is a fundamentally good idea that is failing because of the difficulty of implementing successful piecemeal reforms to a system as complicated as benefits in the UK, and will ultimately probably not succeed in the way its architects intend because it doesn't go far enough. Other aspects of the government's welfare policies, like the work programme, are completely wrong-headed - telling other people how to live their lives is a bad idea because the government is extremely ignorant. That ignorance doesn't change just because the person being told what to do is on benefits.

The ideal welfare system is a basic income, replacing the existing anti-poverty programmes the government carries out (tax credits and most of what the Department for Work and Pensions does besides pensions and child benefit). This would guarantee a certain income to people who have no earnings from work at all, and would gradually be tapered out according to earnings for people who do have an income until the tax-free allowance point, at which point they would begin to be taxed.

For example, we could set a basic income of £10,000/year by using a cut-off point of £20,000/year, and withdrawal rate of 50%. The basic income supplement would be equal to 50% of the difference between someone's earnings from work and the £20,000 cut-off point. A person with no earnings would get a basic income of £10,000/year; a person who earned £10,000/year would get a supplementary income of £5,000; a person on £15,000/year would get a supplementary income of £2,500; and a person on £20,000 would get nothing (and begin paying tax on the next pound they earned).

These numbers are representative: no need to tell me that £10,000 is too low or too high. What matters is the mechanism.

This has also been called a Negative Income Tax, usually by advocates on the right like Milton Friedman,

but language aside the concepts are basically the same. As a side-note, I think basic incomes that are not tapered out are a complete waste of money, redistributing lots of money to people on high and middle incomes unnecessarily. It amazes me that this anti-progressive approach seems to be popular among some on the left. The exception would be if this flat-rate payment replaced the entire welfare state, as [Tim Harford mentions in his column today](#) [3] and [Charles Murray proposed some time ago](#) [4].

Like the current benefits system, this would provide a safety net. But 'benefits traps', where people lose as much in benefits as they earn from work, would be eliminated. A basic income system like this would be at least as clear as the PAYE income tax system is, and substantially clearer than the current benefits system. The dog's breakfast of welfare schemes that currently exist - all to address the symptoms of poverty, rather than the root - would be abolished, and with it the jumble of unanticipated and often indiscernable interactions between schemes that lead to perverse outcomes.

Best of all, a basic income is the least paternalistic welfare scheme possible. Instead of pushing would-be computer programmers into work as Poundland assistants, a scheme like this would leave decisions entirely up to the individuals involved. The discovery process that each of us is engaged in would continue, and now without mass decision-making by a central state authority.

I don't know what amount a basic income like this should actually be set at. That would be an interesting and useful debate - what do we need for a *basic* standard of living? What appeals to me is the principle. Ditching most of the DWP, creating a welfare system that never discourages work, and letting people live their lives as they choose? Now that's a welfare programme I could get behind.

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