



# RSA

Action and Research Centre

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## A Basic Income for Scotland

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## **About the RSA**

The RSA (Royal Society for the encouragement of Arts, Manufactures and Commerce) believes that everyone should have the freedom and power to turn their ideas into reality – we call this the Power to Create. Through our ideas, research and 29,000-strong Fellowship, we seek to realise a society where creative power is distributed, where concentrations of power are confronted, and where creative values are nurtured. The RSA Action and Research Centre combines practical experimentation with rigorous research to achieve these goals.

## **About Omidyar Network**

Omidyar Network uses the transformative power of people, markets, and technology to drive empowerment and accelerate solutions equal to today's challenges.

Established in 2004 by philanthropists Pam and Pierre Omidyar, founder of eBay, our efforts focus on the most salient and pressing issues that have emerged in society. We seek to create a more equitable economy, promote responsible technology that improves lives, expand human capability, and discover the emergent issues that will shape our future. To date, Omidyar Network has committed more than \$1bn to for-profit companies and nonprofit organisations whose work is aligned with our mission.

Our work to create more equitable economies includes supporting efforts that address the norms and policies contributing to the current economic system to help shape a new and inclusive economy. It is our belief that markets should serve the interests of all people and societies, so we seek to understand the needs of workers, amplify their voices, and increase their access to better jobs, to rebalance our economic architecture so that prosperity can be shared equitably by all.

To learn more, visit [www.omidyar.com](http://www.omidyar.com) and follow on Twitter @omidyarnetwork.

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# Executive summary

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The fundamental case for a Basic Income (BI) is concerned with the freedom that can flow from economic security. Namely, that by providing every individual with a foundation of a regular, unconditional, cash payment, the ability to make a wide array of contributions is enhanced. These contributions could come in the form of care for others, pursuit of good and fulfilling work, development of skills and capabilities, and through voluntary action. Many arguments have been made in favour of Basic Income ranging from the (debateable) potential for technological unemployment to the need to de-bureaucratise the welfare state. However, whatever contextual factors there may be, the fundamental argument for a Basic Income is about how to provide a degree of economic security and freedom and all that flows from that for individuals, family, community, and society.

To what problem or policy challenge is Basic Income addressed? The essential challenge is how modern societies can generate greater levels of economic security and thereby help lift people out of destitution and poverty and the negative social, economic, health and wellbeing impacts that flow from these experiences. Basic Income operates on a universal basis – everyone receives it so there is no ‘deserving’ versus ‘undeserving’ demarcation. To combat inequality, it is important that Basic Income is financed through progressive means – those with the highest incomes, profits, or wealth would pay more. A progressive tax system plus a universal system of cash supports at the core of a wider system of supports through public services, and for those with unique needs, such as disability, has the potential to confront poverty and inequality in a more comprehensive fashion than the status quo.

The purpose of this report is to explore how, in Scotland, where there is significant interest in Basic Income and a willingness to consider alternatives to the status quo amongst policymakers and within civil discourse, a move to Basic Income can be explored experimentally in terms of the likelihood that it would be effective, desirable and feasible. The lessons and models presented here have application beyond Scotland itself.

We explore Basic Income in four ways:

- In section one, we consider recent evidence of the failings of the current system of welfare, based on means-testing and conditionality, in reducing poverty and economic insecurity. We then briefly review evidence of the impact of Basic Income derived from a range of trials, experiments and long-term systems such as the Alaska Permanent Fund Dividend which have Basic Income characteristics by way of comparison with the current UK welfare system.

- In section two, we report on the findings from a series of citizen and stakeholder deliberations in Fife, which is currently exploring a Basic Income trial. Three groups were convened in early 2019; a core steering group, a wider stakeholder group involving leaders from the voluntary, community and public sectors, and an ‘active citizen’ series of workshops supplemented with a session with young people. Together, participants helped us understand challenges with modern employment, the welfare system, and local needs. Following this context mapping exercise, we then asked participants to consider Basic Income, its possible impacts, and how individuals in receipt of Basic Income could be best supported. The purpose was not to gauge support for Basic Income but rather to understand potential opportunities, risks and impacts. A series of blueprints for systems of support wrapped around Basic Income experiments was produced from this deliberation exercise.
- A micro-simulation was conducted by Landman Economics using its Scottish tax-transfer model. The purpose of this research was to model the direct impacts of two models of Basic Income: an initial Basic Income (the ‘horizon 2’ model) of approximately £2,500 per person per annum and a full Basic Income (the ‘horizon 3’ model) of £5,000 per person per annum. Using the model, we were able to assess likely impacts on poverty, inequality, and destitution for a range of family types. Out of these calculations we were able to derive an overall cost for the two models. The horizon 2 model halves destitution and reduces relative household poverty by 8.5 percent whilst the horizon 3 model eliminates destitution and reduces relative household poverty by 33 percent. This is section three of the report.
- And in section four, a series of scenarios for political, legal and administrative pathways toward first a Scottish Basic Income experiment, and then the adoption by Scotland of an initial (horizon 2) Basic Income are considered.

Throughout this research, we have been fortunate to engage closely with residents in Fife and those who work with them and on their behalf in public services and in communities. They were generous with their time and open with their testimony on the challenges they see with insecure work, the welfare state and in their communities. There were positive observations about the current system but overall there was a sense that the welfare state is moving in two simultaneous directions: backwards in terms of the financial support it gives and forwards in its willingness to intervene in people’s lives. At the very least, it is worth considering whether feasible and desirable alternatives are available.

None of this is intended to silence criticisms of Basic Income. There are genuine concerns about the impact of a Basic Income on propensity to work, questions over whether it is the right priority given the range of social challenges faced in modern society, and questions over likely cost. The RSA has engaged with thoughtful and well-evidenced criticisms across four reports and a range of other published content. This report is

intended as a further contribution to the debate which will continue for some time to come. We adopt a positive standpoint towards consideration of and experimentation with Basic Income. This report explores why and how. Concerns with the current system are real and alternatives have to be explored to support public dialogue about the right social security approach for the future. Basic Income is one such alternative that past trials and experiments have found some very positive outcomes from.

On this basis the following recommendations are put forward:

### **Box 1: Recommendations**

1. For policymakers at a Scottish and UK level, the powers, resources, and administrative support should be given to enable Basic Income experiments to take place. These experiments should be hosted in volunteer localities in Scotland and elsewhere in the UK.
2. Wherever possible, these experiments should be 'saturation' experiments, ie all residents in a given area would receive a Basic Income for the duration of the experiment. No individual should be placed at a disadvantage by participating in the experiment including after the experiment has been concluded. Experiments should last at least two years.
3. Consideration should be given to a civic model of Basic Income in the localities that host the experiments. This model would involve a Basic Income embedded in a series of civic, community and economic relationships, deliberately designed with people and critical institutions. We have demonstrated how this work could be undertaken in the blueprints developed as part of this research.
4. A progressive model of Basic Income should be developed, that ensures a reduction in poverty and inequality. In the initial model this may mean retaining some elements of Universal Credit though the system should be moved towards reduced conditionality and phased out over time. This horizon 2 model would be developed whilst experiments were ongoing.
5. A public-facing Commission could then be convened to both consider a model for a future full Basic Income system (the horizon 3 system) and to consult extensively to help develop wider discourse around the future of social security in Scotland. This Commission would deploy the latest techniques in citizen deliberation including citizens' juries and assemblies as well as recommending a pathway to a new system that could be achieved incrementally over a 20-year timeframe.
6. All constitutional powers and resources should be kept under review in dialogue between Scotland and the UK in accordance with the Scottish constitutional position. Scotland should be supported in developing a system of social security to meet its needs (whether ultimately administered in Edinburgh or London). This includes any support needed to enable a Scottish Government to run Basic Income experiments.
7. And for wider civil society, the future of support for greater economic security is too important to be left to policy-makers alone as happened in the development of Universal Credit. There is a need for broader discourse around the future of social security. We encourage communities across the UK to develop a wider dialogue about the possibilities for change and its desirability. To this end, the RSA will make resources available for those who wish to host open conversations about alternative pathways such as Basic Income. Already, many RSA Fellows are actively engaged in this conversation from a diverse array of perspectives.

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# The current system and the possibilities of Basic Income

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This is the RSA's fourth report on Basic Income and the methodology on which it is based is the most detailed and extensive to date. Since 2015, we have sought to present Basic Income, a regular payment to cover basic needs paid to every individual without condition, as a potential alternative to a system based on means-testing allied to hard forms of conditionality. Our concern has been to explore a range of dimensions of economic security and its relationship to poverty, health, wellbeing, work, enterprise and citizenship. Basic Income, by providing a fixed and predictable baseline income, has the potential to generate a greater level of economic security, alleviate poverty, and improve the experience of poverty.

Encouraged by the historical and emerging evidence from Basic Income trials, we have continued to deepen our understanding of how Basic Income could operate and the difference it could make. One strong initial impulse motivating this work was observing the emerging failure of the current system in combatting economic insecurity. That situation has worsened since 2015 when our first report was published.

Through the drivers of austerity and attempts to manage the behaviours of those in receipt of benefits, with sanctioning widespread, alongside a failure to implement a highly complex new system, Universal Credit, the experience of poverty has become tougher on individuals and families. Three highly significant national reports published in 2018 have drawn attention to the failure of the current system. Firstly, a final report was published from a six UK university multi-year in-depth qualitative research study tracking the lives of almost 500 recipients of a range of tax credits and benefits. The conclusions were as follows:

“Benefit sanctions do little to enhance people’s motivation to prepare for, seek, or enter paid work. They routinely trigger profoundly negative personal, financial, health and behavioural outcomes and push some people away from collectivised welfare provisions.”<sup>1</sup>

1. Economic and Social Research Council. (2018) *Welfare Conditionality Project, Final Findings Report*. [online] York: University of York. Available at: [www.welfareconditionality.ac.uk/wp-content/uploads/2018/06/40475\\_Welfare-Conditionality\\_Report\\_complete-v3.pdf](http://www.welfareconditionality.ac.uk/wp-content/uploads/2018/06/40475_Welfare-Conditionality_Report_complete-v3.pdf)

Furthermore:

“For a substantial minority, welfare conditionality within social security regularly initiates and sustains a range of negative behaviour changes and outcomes including: counterproductive compliance; disengagement from the social security system; increased poverty, and on occasions, destitution; movements into survival crime; and exacerbated ill health and impairments.”<sup>2</sup>

Even for the stated Government goal of supporting progression into work, the report found little evidence of consistent positive impact. Secondly, the National Audit Office reported on the implementation of the Universal Credit system. Coming from a Government watchdog, the report’s conclusions were notably critical. The conclusion was as follows:

“Both we, and the Department [for Work and Pensions], doubt it will ever be possible for the Department to measure whether the economic goal of increasing employment has been achieved. This, the extended timescales and the cost of running Universal Credit compared to the benefits it replaces cause us to conclude that the project is not value for money now, and that its future value for money is unproven.”<sup>3</sup>

The report found that administrative complexity had created hardship amongst Universal Credit claimants with one in five claimants not receiving payments on time. The Department of Work and Pensions (DWP) claimed that if advance payments were taken up by claimants then these hardships would not occur. However, such advances are subject to repayment leaving recipients in a situation where they must repay debts whilst they are on subsistence level benefits. The knock-on effects in terms of debt, rent arrears, and destitution are predictable. Whilst it would be easy to see these issues as ones of poor implementation, the reality is that they are a result of poor design and a deeper ethos that runs through the system. It is an incredibly complex administrative system in a situation where households have volatile incomes and needs, and to overlay that with behavioural goals that result in sanctions and payment schedules that leave claimants in debt means inevitable hardship.

And that is precisely what was discovered by the UN special rapporteur on extreme poverty and human rights, Professor Philip Alston, in a note published in November 2018 following an investigatory visit to the UK. The report concludes as follows:

“Fourteen million people, a fifth of the population, live in poverty. Four million of these are more than 50 percent below the poverty line, and 1.5 million are destitute, unable to afford basic essentials.”

2. Ibid.

3. National Audit Office. (2018) *Rolling out Universal Credit*. [pdf] London: National Audit Office. Available at: [www.nao.org.uk/wp-content/uploads/2018/06/Rolling-out-Universal-Credit.pdf](http://www.nao.org.uk/wp-content/uploads/2018/06/Rolling-out-Universal-Credit.pdf)



It continues:

“Although the provision of social security to those in need is a public service and a vital anchor to prevent people being pulled into poverty, the policies put in place since 2010 are usually discussed under the rubric of austerity. But this framing leads the inquiry in the wrong direction. In the area of poverty-related policy, the evidence points to the conclusion that the driving force has not been economic but rather a commitment to achieving radical social re-engineering.”<sup>4</sup>

This point is critical. Too often, the discourse in the UK around poverty and inequality focuses on metrics such as relative or absolute poverty alone. These metrics are important but they miss something fundamental. The experience of poverty and inequality matters as well as the individual or household’s relationship to abstract metrics. The changes to the social security system over the past decade or so have worsened the extent of poverty. Child poverty within Scotland stood at 23 percent in 2016 and was forecast to rise in the early 2020s.<sup>5</sup> That the UK Government has dropped its poverty targets is cause for further concern given poverty is heavily impacted by UK level policies such as Universal Credit. The structure of poverty has changed, with in-work poverty now more prevalent than out of work poverty.<sup>6</sup> Furthermore, the experience of being poor has changed with a growth of extreme poverty and the harmful impacts on individuals and families outlined by the Welfare Conditionality project including mental health problems, addiction and a range of other harmful impacts.<sup>7</sup>

For these reasons, the RSA has been interested in going beyond poverty metrics alone, important though they are, and exploring economic security which is both objective and subjective in nature alongside poverty and inequality.<sup>8</sup> Economic security captures a wider lens on the reality of those in a precarious position – a sense of stress, anxiety, lack of control with corrosive effects. Professor Guy Standing has described the ‘precariat’ as a ‘condition’ of existence without security or predictability which affects psychological and material wellbeing.<sup>9</sup> This is why we felt it necessary to conduct citizen and stakeholder deliberations in Fife: to understand the real impacts of economic insecurity on individuals, families and communities. This is closely related to economic security as a condition of fundamental lack of agency given an individual or household’s economic

4. United Nations Human Rights. (2018) *Statement on Visit to the United Kingdom, by Professor Philip Alston, United Nations Special Rapporteur on extreme poverty and human rights*. [press release] 16 November 2018. Available at: [www.ohchr.org/en/NewsEvents/Pages/DisplayNews.aspx?NewsID=23881&LangID=E](http://www.ohchr.org/en/NewsEvents/Pages/DisplayNews.aspx?NewsID=23881&LangID=E) [Accessed: 17 April 2019]

5. Brooks, L. (2019) Scottish government set to miss its child poverty targets- report. *The Guardian* [online] 22 March. Available at: [www.theguardian.com/uk-news/2019/mar/22/scottish-government-set-to-miss-its-child-poverty-targets-report?CMP=share\\_btn\\_tw](http://www.theguardian.com/uk-news/2019/mar/22/scottish-government-set-to-miss-its-child-poverty-targets-report?CMP=share_btn_tw)

6. United Nations Human Rights. (2018) Op cit.

7. Economic and Social Research Council. (2018) Op cit.

8. Shafique, A. (2018) *Addressing Economic Security*. [online] London: Royal Society of Arts. Available at: [www.thersa.org/discover/publications-and-articles/reports/addressing-economic-insecurity](http://www.thersa.org/discover/publications-and-articles/reports/addressing-economic-insecurity) [Accessed 17 April 2019].

9. Standing, G. (2011) *The Precariat: The New Dangerous Class*. [e-book] Bloomsbury Academic. Available at: [www.bloomsbury.com/uk/the-precariat-9781849664561/](http://www.bloomsbury.com/uk/the-precariat-9781849664561/)

condition today. It is an experience that is widespread and is not captured by more abstract measures of poverty and inequality.

And this loss of control is made more acute by state systems of behaviour management and control that have become an appendage of the social security system. The UN report highlighted a deeply concerning development, the increasing and non-transparent use of automated systems to manage claimants. There is no democratic or ethical oversight of these systems:

“Those flagged as ‘higher risk’ are the subject of more intense scrutiny and investigation, often without even being aware of this fact. The presumption of innocence is turned on its head when everyone applying for a benefit is screened for potential wrongdoing in a system of total surveillance. And in the absence of transparency about the existence and workings of automated systems, the rights to contest an adverse decision, and to seek a meaningful remedy, are illusory.”<sup>10</sup>

With artificial intelligence and machine learning technologies gathering pace, notwithstanding significant Government policy development such as the creation of a Centre for Data Ethics and Innovation (CDEI),<sup>11</sup> the potential for harmful implementation of these systems is significant. When an entire system of social security is grounded in the behavioural management of claimants, the application of deeply intrusive and potentially arbitrary systems seems inevitable. Such technologies become a logical outgrowth of the fundamental system design.

This intrinsic risk is one reason that we are sceptical about approaches that seek to address Universal Credit’s manifest shortcomings through technical or policy fixes. The concerns outlined above are grounded in the fundamental ethos of the system. As problems with the system, for example by removing behavioural management from the process (as, indeed, the Scottish Government has done in benefits over which it has control), are addressed, then the system becomes ever more Basic Income-like. The more conditionality is reduced, the more the overall system starts to move in the direction of Basic Income. This then raises the obvious question of how feasible a Basic Income would be itself and how it could offer superior outcomes to the current system across poverty and economic security dimensions. That is what this report sets out to explore in a Scottish context.

### **The Basic Income alternative**

Basic Income is a systemic intervention very different from the conditionality and targeting of the contemporary welfare state. It may sound simple, giving universal cash payments to all, but when compared to existing social security it could offer transformative and unexpected changes in many areas including, but not limited to, poverty reduction, impacts of inequality and economic security. Trials in India, the US (in the 1960s and 70s and the contemporary Alaska Permanent Fund),

10. United Nations Human Rights. (2018) Op cit.

11. GOV.UK. Centre for Data Ethics and Innovation (CDEI). (n.d.). [online] Available at: [www.gov.uk/government/groups/centre-for-data-ethics-and-innovation-cde](http://www.gov.uk/government/groups/centre-for-data-ethics-and-innovation-cde) [Accessed 17 April 2019]

Canada, Kenya and Namibia – as well as a range of unconditional cash transfer programs in other parts of the world – have shown that Basic Income payments can significantly reduce poverty and increase economic security.<sup>12</sup> Early stage data from the two recent Finnish trials of a form of Basic Income also showed significant self-reported impacts on health and mental health in comparison with a control group.<sup>13</sup> Should these health effects be verified over time, impacts mirror previous experiments of different types in Canada - where hospital admissions fell by 8.5 percent – and the US, where significant impacts were found on child behavioural problems and adult mental health.<sup>14,15,16,17</sup> Recipients of the Finnish Basic Income were also more likely to trust other people, the legal system and the political system. This was novel, although similar impacts – including around subjective experiences of shame and embarrassment – were found in Canadian trials in the 1960s and 70s.<sup>18</sup>

Though critics of Basic Income have claimed that recipients would be less likely to be in employment, recipients in the Finnish trial were no more or less likely to work.<sup>19</sup> Other trials, most notably in the US and Canada, found that Basic Income didn't significantly reduce the propensity to work, and where there were reductions this was found to be due to people going back into education, caring for new born babies or spending longer between jobs, trying to find the right fit.<sup>20</sup> Recent Office for National Statistics data has shown that changing jobs is a good way of securing wage increases and current moves between work remain at very low levels post-crash. The greater degree of security offered by Basic Income could help smooth income mobility if people felt able to take greater risks.<sup>21</sup> The most recent research in Alaska, where a Basic Income-type programme funded out of dividends from natural resources

12. Widerquist, K. (2018). *A Critical Analysis of Basic Income Experiments for Researchers, Policymakers, and Citizens*. Springer International. Palgrave Pivot, Switzerland.

13. The Finnish experiment only applied to a group of 2000 unemployed Finns selected on a random basis. Therefore, it was not universal and the recipients were located across the country so no positive spillover network effects could be observed. The low levels of survey completion have led to some question marks over the data.

14. Painter, A. (2016) A Universal Basic Income: the answer to poverty, insecurity, and health inequality? *The BMJ* [e-journal] Available through The BMJ website: [www.bmj.com/content/355/bmj.i6473?fbclid=IwAR2y8w3djRyXUUuFzL6Nk8uGz8t7QDBqOrhnAMDC6ehz3Bok7N4v1eiRISU](http://www.bmj.com/content/355/bmj.i6473?fbclid=IwAR2y8w3djRyXUUuFzL6Nk8uGz8t7QDBqOrhnAMDC6ehz3Bok7N4v1eiRISU)

15. Costello, J. (2016) *Many countries are weighing cash payments to citizens. Could it work in the US?* Salon [Online] Available at: [www.salon.com/2016/06/21/many\\_countries\\_are\\_weighing\\_cash\\_payments\\_to\\_citizens\\_could\\_it\\_work\\_in\\_the\\_u\\_s/](http://www.salon.com/2016/06/21/many_countries_are_weighing_cash_payments_to_citizens_could_it_work_in_the_u_s/)

16. Forget, E. L. (2011). *The Town with No Poverty: The Health Effects of a Canadian Guaranteed Annual Income Field Experiment*. Canadian Public Policy. V. 37, N. 3 pp. 283-305

17. Young, C. (2018) *Realising Basic Income Experiments in the UK* [online] London: Royal Society of Arts. Available at [www.thersa.org/discover/publications-and-articles/reports/realising-basic-income](http://www.thersa.org/discover/publications-and-articles/reports/realising-basic-income)

18. Calnitsky, D. (2016) “More Normal than Welfare”: The Mincome Experiment, Stigma, and Community Experience. *Wiley Online Library* [e-journal] 53(1). Available through: [onlinelibrary.wiley.com/doi/full/10.1111/cars.12091](http://onlinelibrary.wiley.com/doi/full/10.1111/cars.12091)

19. Ministry of Social Affairs and Health. (2019) *The Basic Income Experiment in Finland, 2017-18*. [pdf] Helsinki: Ministry of Social Affairs and Health. Available at [julkaisut.valtioneuvosto.fi/bitstream/handle/10024/161361/Report\\_The%20Basic%20Income%20Experiment%2020172018%20in%20Finland.pdf?sequence=1&isAllowed=y](http://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/161361/Report_The%20Basic%20Income%20Experiment%2020172018%20in%20Finland.pdf?sequence=1&isAllowed=y)

20. Standing, G. (2017) *Basic income: and how we can make it happen*. Penguin. London

21. Brown, L. (2019) *Employees' reluctance to find new jobs is driving down wages, says ONS*. CIPD [online] 30 April. Available at: [www.peoplemanagement.co.uk/news/articles/employees-reluctance-find-new-jobs-driving-down-wages](http://www.peoplemanagement.co.uk/news/articles/employees-reluctance-find-new-jobs-driving-down-wages)

is in place, found no significant reductions in labour supply over several decades.<sup>22</sup>

A consistent picture has emerged of Basic Income as a security enhancing intervention and the Finnish data reinforces findings from other experiments. The purpose of Basic Income is aimed at creating a foundation of economic security which through a series of vectors such as health, wellbeing, trust, entrepreneurship, likelihood to engage in education and a series of other effects enable greater resilience to shocks and adaptability to changes in economic and personal situation. The intervention is designed, when placed in the context of a progressive tax system, to support greater equality and reduce poverty, but the aim of the intervention is also to reinforce positive behaviours. Through universality, the aim is to ‘catch all’ whereas complex targeted systems such as Universal Credit miss their targets, as covered above, by diminishing trust and therefore the likelihood of receipt of support and administrative complexity.

Whilst the direct impacts on poverty and inequality can be modelled, the indirect impacts on individual resilience and behaviours cannot. As a result, the RSA has advocated for a series of UK Basic Income experiments to tease out the potential impacts of a Basic Income. We have been supportive of the Scottish Government and four localities in Scotland (Fife, North Ayrshire, Edinburgh and Glasgow) as they consider the feasibility of local experiments, together with other localities such as Liverpool where the city council has also supported the idea of a Basic Income experiment. Indeed, this report draws in part on a ‘deep dive’ we undertook by working with Fife Council, its partner agencies and local citizens to explore the opportunities and barriers that could exist around a Basic Income experiment in improving the lives of Fife’s residents.

Methodologically, our preference would be for so-called ‘saturation site’ experiments where everyone in a given locality receives a Basic Income over at least a two-year period and, thereby, positive social spill-over effects such as wider participation in civil society and pooling of resources can be understood alongside individual effects. A saturation site would more accurately model any potential national programme more completely than a randomised distributed trial.

The RSA’s continuing programme of work engaging with policy, discourse and public engagement around Basic Income reflects an overall perspective that is grounded in wider propositions for change such as participative engagement and inclusive political economy. Basic Income should be seen as one catalysing element within a wider plethora of changes potentially contributing to a modern political economy. These changes would include national and local interventions on democratising wealth, deliberative democracy, re-engineering public and voluntary services for collective impact, and re-thinking policies and institutions designed to foster and support good work for all. The implementation of a Basic Income could also go a long way toward reshaping institutions and economic and behavioural incentives. In our *Pathways to Universal*

22. Jones, D., and Marinescu, I. (2018). *The Labor Market Impacts of Universal and Permanent Cash Transfers: Evidence from the Alaska Permanent Fund* Working Paper Series. IZA Institute of Labor Economics 24312. [Online] Available at: [www.iza.org/publications/dp/11356/the-labor-market-impacts-of-universal-and-permanent-cash-transfers-evidence-from-the-alaska-permanent-fund](http://www.iza.org/publications/dp/11356/the-labor-market-impacts-of-universal-and-permanent-cash-transfers-evidence-from-the-alaska-permanent-fund)

*Basic Income* report last year, Basic Income was framed as a common dividend funded by collective wealth of different types including climate, wealth and corporate taxes and a levy of transfer of data to global digital platforms. A common dividend should widen the range of choices available to citizens: within work, the family, the community and the wider economy.

To secure the full possible benefits of a Basic Income, this programme has been exploring a ‘civic Basic Income’, defined as a Basic Income *around which communities develop active support mechanisms for their citizens by bringing together public, private, and voluntary assets and resources.*

This report tells the story of a deliberate process of democratic and collaborative design around the Basic Income idea in Fife and its communities. We heard the voices of communities themselves, we saw how services and charities began to reimagine their purpose, and we saw creativity unlocked. We heard testimony, with hard messages at times, of a work and welfare system that has gone badly wrong, with a community determined to pull together wherever possible and a deep sense of local identity, loss and determination. The range of people who worked with us in exploration has encouraged us to develop the ‘civic’ method of designing Basic Income further.

We believe that co-designing interventions with citizens is crucial if Basic Income policy is ever to address the needs and desires of the people it hopes to serve. Understanding people’s perspectives and taking into account their experiences is fundamental to building interventions that work. The full materials from this work are available to help other communities develop their own conversations to explore economic security and how we might respond as a society. And the next section gives an overview of the testimony we heard and its implications for designing an effective model of Basic Income experimentation.

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# A civic Basic Income

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“It’s currently not a support system – it doesn’t incentivise trying new things, it’s about threats not support.”

Any potential design for a Basic Income as an alternative to the existing benefits system must be grounded in the needs of the people in the area in which it is to be deployed. It must liberate personal and collective agency for change and not crowd it out, helping people make positive and transformational change in their lives and the lives of their families. Our notion of a civic Basic Income is one that is far more than a replacement of one benefits system for another. By unconditionally supporting people to make change, it is grounded in individual agency and civic ambition. We would define a civic Basic Income as follows:

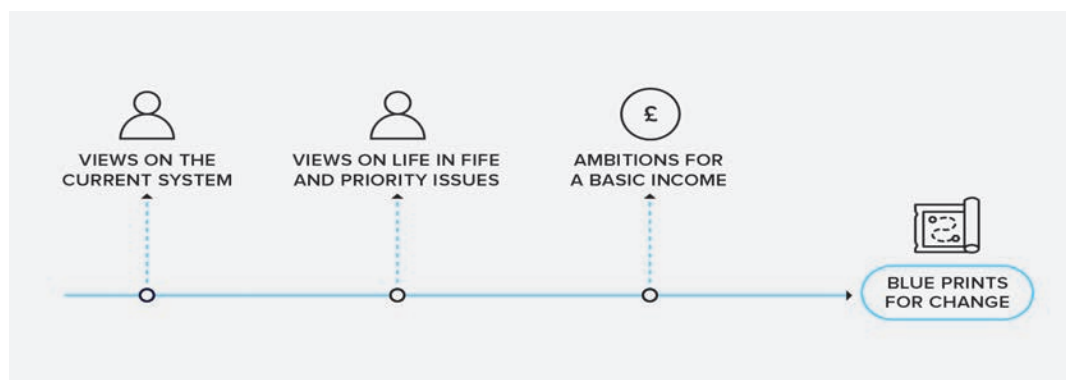
*A version of Basic Income around which communities develop active support mechanisms for their citizens by bringing together public, private, and voluntary assets and resources.*

In order to develop blueprints to test any transition to a civic Basic Income, beginning with an experiment in a place, we actively engaged with citizens and with stakeholders across the public, private and voluntary sectors. Citizens told us about their day-to-day experiences of living in Fife, what it was like to engage with the current welfare system, their ambitions for change and the barriers they and their networks faced in realising these ambitions. The insights we gained helped us to identify the foundations for a whole place Basic Income experiment in as yet unidentified areas of the locality. Building on these foundations we have developed initial blueprints for a Basic Income experiment in Fife that are intended to be taken forward by the stakeholders as planning for a future experiment develops in the next two years.

This process is summarised in the diagram below.

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**Fig. 1: Process**



The remainder of this chapter examines people's experiences of the current welfare system, explores the insights we gained through our engagement in Fife, and presents the ambitions of a Basic Income for each of the three priority issues that emerged from this work: income support, health and wellbeing, and community solidarity. We set these out as a series of blueprints together with next steps for implementing them in Fife.

### **The current welfare system**

We explored citizen's views of the welfare system with Universal Credit at its core itself and the extent to which it provided support that enabled them to make life changes they needed to realise their ambitions.<sup>23</sup> There was unanimous agreement that the welfare system should be a catalyst for change in people's lives to enable work, better work, caring and community participation, but that it was failing in this respect.

Although there was ready acknowledgement that the current system does get help to those that need it, there was concern evident throughout that it is not enough, has many gaps in provision and support, and therefore rather than being a support system, it becomes a trap.

“It's not called a poverty trap for nothing, it's hard to get out of - impossible!”

Beyond this, there was strong agreement that a system that should exist to support people when they are at their most vulnerable actually makes matters worse. It fatigues people physically, mentally and even financially, while sanctions that are often inflicted due to unrealistic demands don't just hit individuals but also their dependents, and, at the same time, limits their ability to achieve their ambitions. We heard about cases of serious mental health issues resulting from interactions with the benefits system. This reflects the academic evidence outlined in chapter two.

“The system's out to screw us, keep us in our place.”

Sanctions were a significant cause of concern for citizens. They see Jobcentre Plus as having unrealistic expectations about what is possible and recipients, therefore, spend a disproportionate amount of time trying to 'feed the system'. This can cloud people's ability to make the best decisions for their future, which may get in the way of even those who have a clear view on what they want to achieve in life. This is, to a large extent, because of the worry of being sanctioned if the conditions are not met. This doesn't seem to readily account for unforeseen changes in circumstances, often out of the control of the claimant and not within their ability to change – fluctuations in working hours and income was one such example. One respondent expressed this as being:

“Doomed if you do more, doomed if you do less”

<sup>23</sup> Universal Credit has been 'rolled out' in Fife and was well understood by citizens the majority of whom either receive Universal Credit or have a close family member who is in receipt of it.

This takes a toll on both the individual and their dependents, compounded by difficulties in often being ‘out of pocket’ to sign on, taking into account the cost of transport, etc. Others described this dissonance between the positivity of their ambitions for personal change and the negativity with which these hopes are treated by a system that many of the participants felt exists to serve itself. Indeed, the toll of engaging with the system on people’s self-esteem and confidence were noted as particularly impactful. Participants were clear that this is also related to the stigma that is attached to being dependent on the welfare system.

Both the citizens’ and young people’s groups that we consulted agreed that people generally do want to work but that the welfare system treats them like they do not want to better their lives because it does not understand their experiences of poverty. Some described how they felt that the ‘social contract’ between individual and state was, in reality, a one-way street. People with a long history of working described how they were now struggling to find employment and feeling resentment towards the welfare system for not providing them with the support they needed after years of working and ‘doing their bit’ by paying taxes. A few people did raise concerns that there were some who didn’t necessarily feel this sort of reciprocal responsibility:

“What about the free-riders, won’t it allow people to choose not to work, how is that fair?”

There is no doubt that the moral impulse that the current system taps into, that of reciprocity, is deeply held. There was also a sense that the current system is asymmetric and nonreciprocal. Universal systems of support such as a Basic Income to offer a different moral appeal: one of universal social support. So, we often heard a cognitive dissonance in both citizens’ and young people’s groups: a desire for reciprocal justice and universal support despite the two systems, in reality, being at odds. This could suggest that the system itself frames which moral foundation people tap into rather than being reflective of a moral foundation of hard reciprocity alone as is often the claim of policy makers.<sup>24</sup>

When the RSA polled on these questions, we found that there was general support for Basic Income in principle by a margin of 24 percent and preference for it over the current system. One interpretation of the findings of both the survey and deliberative research in Fife is that the moral universe is complex and people wrestle with different moral frames; and these can be framed by the system itself.

Despite concerns over the free-riding that conditional welfare such as Universal Credit is designed to address, stakeholders were critical of the system as it currently stands:

“Where inequality has existed, the system perpetuates the issues.”

There were examples of competing incentives, such as when people receive weekly assessments yet are asked to pay bills monthly; or when

<sup>24</sup>. Haidt, J. (2012) *The Righteous Mind: Why Good People are Divided by Politics and Religion*. London: Penguin.



different benefits operate to different timelines. Citizens articulate a lack of support to navigate a complex, inflexible system that takes a disproportionate amount of time to engage with. These issues are compounded by often relatively low levels of financial capability and literacy.

“There is little support to navigate a complex system that it is difficult to understand, not made any better by constant changes in assessment criteria.”

For those within the system, there often remains a culture of silo working and challenges of different local geographies and boundaries across different administrative bodies, although the sense of place does mean that strong working relationships exist between many within the system. Stakeholders identified some good practice that exists, although there was a perception that this is found at the edges of the system, manifested as workarounds to address the most negative aspects of poverty and destitution.

Mitigation measures, often community led with support of entrepreneurial public workers, such as food banks, hardship payments, clothes banks, etc have emerged to respond to system failures. The local credit unions, Scottish Welfare Fund, the local welfare reform and anti-poverty groups, job clubs, food banks and wider anti-poverty work all seek to support those experiencing poverty. Yet there is the danger that in supporting people failed by a system that isn't fit for purpose, not only is the experience of poverty normalised but we are not getting to the root cause of the problem: acute system failure for those that most rely on it.

The testimony we encountered in Fife supports the findings of recent authoritative reports summarised in the previous section suggesting that the problems encountered with the welfare system are not simply technical. These challenges emerge from the ethos on which the system has been designed. Therefore, larger scale changes may be necessary. Basic Income is grounded in an ethos of universal support and we sought to identify how this very different approach could work in practice.

### **Life in Fife and Basic Income**

Citizens' experiences of living in Fife are embedded in pride in its history, heritage and community spirit. Much of this is related to pride in now closed industries such as coal-mining, with a sense of loss from their passing.<sup>25</sup> Interwoven into Fife as a place is the beautiful scenery and recreational outdoor space that it boasts. Yet there's a difference between recognising Fife as a great place to live and being able to live a good life there. Concerns were raised over the changing nature of work, of financial insecurity and debt, limited public transport connections and social isolation. Stakeholders related these issues back to those identified through their work, from quantitative research to the findings of the Fairer Fife Commission in 2015.

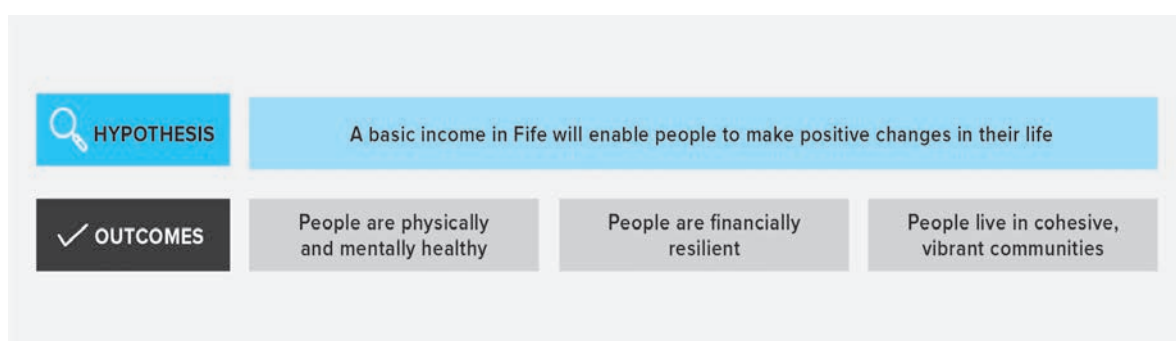
Fife has been described as the microcosm of Scotland as a whole, due to its combination of (small) urban conurbations and rural communities. It sits

25. Fifedirect.org.uk. (2019) *Museums and galleries - Coal Mining*. [online] Available at: [www.fifedirect.org.uk/topics/index.cfm?fuseaction=page.display&p2sid=99E02C5D-CB80-3C42-86423778C644D506&themeid=98A56687-9A34-4494-A43C-68E07CCA64E](http://www.fifedirect.org.uk/topics/index.cfm?fuseaction=page.display&p2sid=99E02C5D-CB80-3C42-86423778C644D506&themeid=98A56687-9A34-4494-A43C-68E07CCA64E) [Accessed 17 April 2019]

as the third largest local authority in Scotland in terms of population, and has retained a distinct and coherent identity through various local government changes. Most indicators in Fife closely mirror the Scottish average, according to the 2016 Scottish Index of Multiple Deprivation (SIMD). Eleven percent of Fife’s population was employment deprived and 12.4 percent were income deprived<sup>26</sup> (10.8 percent and 12.3 percent respectively for Scotland as a whole).<sup>27</sup> One key factor for Fife is that it has been an area where Universal Credit has been rolled out fully so the participants in our deliberations were aware of its existence and impacts.

Three priorities emerged from the engagement sessions: health and wellbeing, income and wealth, and community and networks, each with a clear intended outcome. From this we were able to form a core hypothesis:

**Fig. 2: Hypothesis**



On the basis of this initial hypothesis we then consulted with citizens and stakeholders to consider if and how a Basic Income might make a difference to the three outcome measures of health, financial resilience and a more cohesive community.

In general, there was a sense that Basic Income had the potential to address the complexity of the current system, remove more arbitrary elements such as sanctions, increase financial resilience, enable greater participation in community life, reduce stigma and shame in claiming financial support and provide a stronger foundation to enable people to find work. The purpose of these structured deliberations was not to ascertain likely support for Basic Income or otherwise, and these findings should not be taken as such; it was rather to explore perceived advantages and disadvantages. These conversations took place in a second session following consideration of the existing system, work and economic security and ‘life in Fife’. Participants were presented with a rudimentary model of Basic Income and were unprompted in their deliberations.

### Work and economic security

It was perceived by citizens and stakeholders that many people in Fife are having a tough time managing in terms of work, income and financial

26. Income deprivations is a measure of the percentage of the population (adults and their dependants) in receipt of Income Support, Employment and Support Allowance, Job Seekers Allowance, guaranteed Pension Credits, and Child and Working Tax Credits. Employment deprivation is a measure of the percentage of the working age population (men aged 16-64 and women aged 16-60) who are on the claimant count, receive Incapacity Benefit, Employment and Support Allowance, or Severe Disablement Allowance.

27. Fife Council (2016) *Scottish Index of Multiple Deprivation 2016: Fife facts*. Available at: [http://publications.fifedirect.org.uk/c64\\_SIMD16KnowFifeQuickBrief310816.pdf](http://publications.fifedirect.org.uk/c64_SIMD16KnowFifeQuickBrief310816.pdf)

resilience. This is not an issue limited to those on benefits; those on low and volatile incomes are struggling to make ends meet too.

The closing of some traditional industries such as mining, in which local people had pride has left many feeling a sense of loss that is tough to cope with, particularly in Fife's rural areas. This is particularly the case when who you are is inextricably linked to what you do for a living and where you do it. There is a resultant impact on individual, and community pride and self-respect. Indeed, we heard from people who had, in effect, internalised the lack of opportunities, presenting a very real barrier to identifying and realising aspirations for their future.

There was a clear sense that employment is underpaid and insecure as a result of a 'hire and fire' culture where employers hold 'all the cards', along with the rise of part-time and agency work. As a result, many of the basic services that enable people to access services, work or study are not accessible:

"If you work, all your wages go on transport and childcare leaving you with nothing."

Financial resilience was reflected by both citizens and young people as paramount in order to maintain a good quality of life. Yet for many the ability to deal with even small emergencies was compromised by a system that penalised you for having savings and encouraged you into debt. With competing expenses building up, deciding which to pay first is a recurring challenge that some attempt to resolve by spending carefully, some decide between what they need the most out of housing, transport and education, and some simply don't prioritise, making their debt situation much worse.

"Once you're in debt, it is impossible to catch up."

Combined with precarious work, such as working in a nursing home with a zero-hour contract, there are logistical complications with declaring income for housing benefits, which adds to the problem of the system not allowing for resilience against sudden economic shocks.

Advocates claim a key benefit of Basic Income versus cash payments in general is that you have it as of right without administrative hurdles. In theory, that can provide for better cushioning against sudden shocks. And this 'always there' feature of Basic Income was something noted in citizen deliberations.

Arising from economic insecurity and the volatility of people's financial situations was the cumulative and corrosive impact of day-to-day stress and anxiety, which in turn leads to wider social challenges such as isolation. These issues are covered in more detail in the health and wellbeing section. Overall, however, repeatedly we heard testimony of people facing acute levels of 'stress/anxiety' and 'loss of control' resulting from economic insecurity and volatility. This testimony makes clear that the abstract way in which public policy deals with metrics around poverty and inequality is inadequate to the task of understanding the real experience of poverty.

### **What ambitions do residents have?**

“I’d be able to plan ahead more than a month.”

There was a general belief amongst the citizens group that most people are trying to forge a better life for themselves and their families despite the system, and actively supporting people to get back into work was critical. They saw it as both a journey and a destination, but support for the journey that was crucial.

“I would be able to explore possibilities in education and training.”

Participants also wanted more control over their own situation with economic resilience seen as critical. It was often in the toughest of times that the inhumanity of the system at its worst was seen:

“If I had a Basic Income I would not have to live off the payment I received from an insurance policy when my husband died, which the current system sees as savings so I can’t get universal credit. I’m just watching it disappear.”

### **What support would be helpful?**

Participants wanted to explore how to access relevant education and training, affordable childcare, transport and driving lessons. All of these were seen as means to an end. Some also pointed out that certain types of work are not valued sufficiently by the welfare state, yet actually reduce the burden on it, such as looking after elderly parents or young children, which are opportunities a Basic Income makes more affordable to many. Others felt that advice on issues such as debt and debt avoidance, budgeting and best ways to use the Basic Income would be really help them make the best of the system.

“The lack of the ability to understand the financial language that the complex system uses is a barrier.”

Yet ultimately, people saw Basic Income as a way of addressing financial insecurity in all the ways it shows up, reducing the need for debt and the anxiety that comes with it, increasing the ability to save money, smoothing out fluctuations in wages. However, a Basic Income was clearly not sufficient alone, and for those who advocate for change based on Basic Income, it further underlines the importance of considering it as a component of wider systemic change.

### **How might a Basic Income help?**

Paying everyone a Basic Income, regardless of circumstance, could go a long way toward providing people with the opportunity to meet their basic needs it was felt in general. Many people cycle in and out of poverty and a regular and predictable income stream could provide a crucial buffer.

“Having a Basic Income would allow me to say ‘no’ to a job and have the option to look for something else rather than having to ‘choose’ between taking the job available or being destitute.”

The reliability and consistency of a Basic Income would mean that people had more of a sense of how to meet their basic needs, addressing economic insecurity.

“I’d be able to save money for emergencies and bigger purchases so I wouldn’t have to go into debt.”

This is especially true for people with changeable incomes. Because payments aren’t withdrawn at high deduction rates as earnings rise, unlike the current system, a Basic Income could mean that people in lower income brackets keep more of the money they earn. How this might operate is explored in the next chapter.

Amongst researchers there is some disagreement on work incentives though. Some believe that giving people ‘free money’ would make people less likely to find employment, while others believe that lower marginal deductions could increase incentives to work, or that payments would allow the flexibility to find the most appropriate work for each individual. Experimental evidence shows that there is little correlation between Basic Income and declining proclivity to work.<sup>28</sup>

## **Health and wellbeing: people are physically and mentally healthy**

“The system fatigues people in every way – physically, mentally, financially.”

The experiences the young people’s group had come across and voiced included family members who are unable to participate in the labour market due to illness who did not have enough food in their cupboards and were therefore were trapped financially and another family member who was socially isolated due to not being able to afford transport.

Moreover, the welfare system takes a significant toll on the quality of life of those in receipt of welfare benefits by fatiguing them physically, mentally, financially (eg through transport costs) and in terms of resources overall.

“People could identify what is realistic to achieve and get tangible support and eventually succeed with their own aims and potential.”

### **What ambitions do residents have?**

Almost unanimously, participants in our groups saw the primary benefit of a Basic Income as being a reduction in the stress and anxiety that pervades their day-to-day experience of engaging with the existing welfare system. Indeed, the very notion of an unconditional payment was seen to be so far removed from their current reality as to take some getting used to.

<sup>28</sup>. Standing, G. (2017) *Basic Income: and how we can make it happen*. Op cit.  
A Basic Income for Scotland

“I’d be less worried about debt so that I could be less stressed and more confident.”

We return in our recommendations to the work required to support people to make this significant shift in philosophy; the system has conditioned people to behave in certain ways due to its very conditionality. This behaviour, a product of the system, would need to be unlearned for people to maximise the opportunities presented by a Basic Income.

“You mean I would be able to treat my family with a Chinese take-away after a long day at work?”

The other core driver of stress and anxiety was debt and economic insecurity, outlined in the previous section. A Basic Income would directly help people address concerns around debt, economic shocks, lack of savings and fluctuating incomes.

“We’d have fewer arguments in our house over money.”

When people started to focus on the wider health and wellbeing opportunities, the ability to do things as a family was seen as liberating, from accessing activities like swimming, signing up for afterschool activities, saving for trips or holidays, and generally reducing the stress in the household. Indeed, some thought that reducing the pressures to work would enable them to spend more time with their children which in turn would ensure they have good attendance at school.

“If I had a Basic Income a few years ago, I would have spent more time with my son.”

There were discussions too about how this would be positive for those who were on long-term sickness benefits and had to continuously prove they were not fit for work.

A Basic Income, together with fitness to work tests conducted by health professionals rather than benefits officials was seen as an opportunity.

“I would not have to feel under pressure to apply for work that I can’t do without making my health worse.”

Many saw the potential for particular advantages of a Basic Income for women and others who provide much of the unpaid labour that isn’t measured or valued in the formal economy. Childcare as a barrier to work was a recurring theme and shed light on some of the issues around the difficulties of managing responsibilities that aren’t all paid for, such as gardening for an elderly neighbour to help them out. Living through a difficult domestic situation, where all the money being paid to the household is handled by one person, can be very damaging disproportionately for women, as the control over finances becomes very political and disempowering for the dependant that does not have access to the money that

they should have access to. Basic Income, as an individual entitlement, would alleviate this feature of the current system.

“My dad had a separate bank account - he was tight fisted and held it back from my mum. My mum would have continued working but that would have created more difficulty.”

“My husband was refusing to claim what was due to us and so I went down to the benefits office, we had nothing and they said they were unable to help and it was really a matter for social services. I feared that if I went to them then I would lose my children.”

### **What support would be helpful?**

Citizens drew attention to how interwoven income is to wellbeing and how planning for the future is the cornerstone in improving quality of life. There was a real sense that a Basic Income could help provide this longer-term perspective.

The youth group expressed concern over a Basic Income being used to make the situation worse for some people who would spend more money on drugs and alcohol and would not spend it in bettering their state through much needed therapy for example.

“Won’t some people just spend it on alcohol?”

Citizens also discussed the extent to which a Basic Income might disincentivise people to look for work as they might be able to scrape by on a Basic Income. No conclusions were drawn as to whether this was socially or morally acceptable perhaps, in part, as the complexity of everyone’s individual circumstances would dictate what they do, and these factors were often unseen, such as underlying physical or mental health issues.

### **How might a civic Basic Income help?**

A Basic Income could potentially encourage people who cannot hold down a job for health or other reasons, to be a productive member of society without feeling the guilt of not having a paid job. Examples that were given include taking care of elderly neighbours by helping with the upkeep of their house without feeling the stigma that they are able to do this unpaid work instead of looking for a job or staying in work.

The increased security provided by Basic Income could increase concentration, reduce levels of stress, anxiety and other ailments. This has been found in a number of studies. Anxiety was found to decrease in Finland and mental health improved markedly in an experiment in North Carolina.<sup>29,30</sup> In Dauphin, Manitoba there was found to be an 8.5 percent reduction in hospital admissions during the implementation of a Basic Income, with significantly fewer people admitted to A&E and mental health wards.<sup>31</sup> This could, amongst other things, reduce the burden on

29. Akee, R. et al. (2018) *How Does Household Income Affect Child Personality Traits and Behaviors?* American Economic Review V. 108 N. 3 [online] Available at: [www.aeaweb.org/articles?id=10.1257/aer.20160133](http://www.aeaweb.org/articles?id=10.1257/aer.20160133)

30. KELA (2019) *Experimental Study on a universal basic income KELA* [online] Available at: [www.kela.fi/web/en/basic-income-experiment](http://www.kela.fi/web/en/basic-income-experiment)

31. Forget, E. L. (2011). Op cit.

the NHS. Overall, Basic Income has to be seen as one measure against a complex and interlocking set of needs and barriers. Those we consulted tended to see Basic Income as a support in addition to other supports such as with childcare, transport, and health services would be necessary. Community support would also be necessary alongside Basic Income to support health and wellbeing.

### **Communities and networks: People live in cohesive, vibrant communities**

For many, the feeling of isolation and marginalisation as a result of the benefits system is palpable, and this was a particularly strong message from those living in the more rural parts of Fife and villages. The frequency and affordability of rural transport added further barriers to wider community participation that some experienced:

“Leaving the house costs money I don’t have. Even if I could afford the bus, what do I do when I get to town, I haven’t got the money to buy a coffee so I can be warm and dry in a coffee shop. I’m pretty much stuck at home.”

Yet in some communities people were coming together around shared interests such as crafts or to simply meet in shared spaces such as a community centre. Sometimes there doesn’t have to be a need or a requirement to set something up, as we heard the basic need can be just to chat over a cup of tea.

Where people were trying to establish community groups or enterprises, the council’s community teams were available to provide support if needed. This included signposting people to the kinds of support that were available in the community, and often local communities were active in getting help to those who need it, such as through food banks, charity shop and faith groups.

“How is it ok that many people that use the food banks are actually in work?”

### **What ambitions do residents have?**

It was not surprising to hear the group express that money and finances are a key driver of social isolation. Being able to afford transport would help address feelings of social isolation and strengthen relationships between family and friends. The role of volunteering as an ambition for both people’s personal development and to support their community was mentioned by the citizens’ groups and the younger people we engaged with.

“I could volunteer more for charity.”

### **What support would be helpful?**

Clearly, people wanted an easy way of knowing what is happening in their community, from informal activities to join in with, to opportunities to



volunteer. The development of community hubs was seen as a positive that should continue to be supported.

“The community steps up to fill the gaps that the state fails to.”

Access to coaching and support groups was seen as particularly helpful for people. Specifically, citizens recognised that a level of support would be vital to enable those previously constrained by circumstances to actively engage in their community. For some this might be about developing the self-confidence to leave the house, for others it might mean recognising that they have something positive to offer their local community or overcoming the anxiety of meeting new people.

### **How might a Basic Income help?**

There is little research that has looked at the impact of a Basic Income on people’s engagement with their community and whether it enables them to build larger networks. The Finnish trial early data release did find improved levels of social trust.<sup>32</sup> Yet we do know from network theory that the broader and more diverse a person’s personal network of family and friends, the more resilient they are likely to be.<sup>33</sup> This is because there are more people available to help if you have a challenge or situation to resolve, and because of the network effect whereby the actions of people in your network have a ripple effect and influence your own behaviour.

The less diverse your network, the less susceptible you are to these network effects. Basic Income trials around the world have been found to increase the density of community networks, through sharing time and capital, increased time spent in the community and pooling resources.<sup>34,35</sup>

“I would be able to afford to leave the house (take the bus etc) to meet and talk to people so I could feel less isolated.”

This is a very relevant hypothesis for Fife as there was a sense amongst some stakeholders and citizens that a lot of small businesses would benefit from a safety net. Network effects would not only benefit businesses but also enable the start-up of grassroots community groups and social enterprises, or facilitate initiatives that are struggling to sustain themselves due to a lack of finances.

32. KELA. (2019) *Basic Income recipients experienced less financial insecurity* KELA [online] Available at: [www.kela.fi/web/en/publications/-/asset\\_publisher/lvZwhvziXuKG/content/basic-income-recipients-experienced-less-financial-insecurity](http://www.kela.fi/web/en/publications/-/asset_publisher/lvZwhvziXuKG/content/basic-income-recipients-experienced-less-financial-insecurity)

33. The Young Foundation. (2012) *Adapting to Change: the role of community resilience* [online] Available at: [www.barrowcadbury.org.uk/wp-content/uploads/2012/10/Adapting\\_Change.pdf](http://www.barrowcadbury.org.uk/wp-content/uploads/2012/10/Adapting_Change.pdf)

34. Haarmann, C. et al. (2009) *Making the Difference! The BIG in Namibia, Basic Income Grant Pilot Project Assessment Report* [online] Available at: [www.bignam.org/Publications/BIG\\_Assessment\\_report\\_08b.pdf](http://www.bignam.org/Publications/BIG_Assessment_report_08b.pdf)

35. Davala, S., Jhabvala, R., Mehta, S. K., and Standing, G. (2015). Basic Income: A transformative policy in India. *Indian Journal of Labour Economics*. Volume 58, Number 1. [Online] Available at: [190.www.developmentpathways.co.uk/resources/wp-content/uploads/2016/04/Indias-Basic-Income-Experiment-PP21.pdf](http://190.www.developmentpathways.co.uk/resources/wp-content/uploads/2016/04/Indias-Basic-Income-Experiment-PP21.pdf)

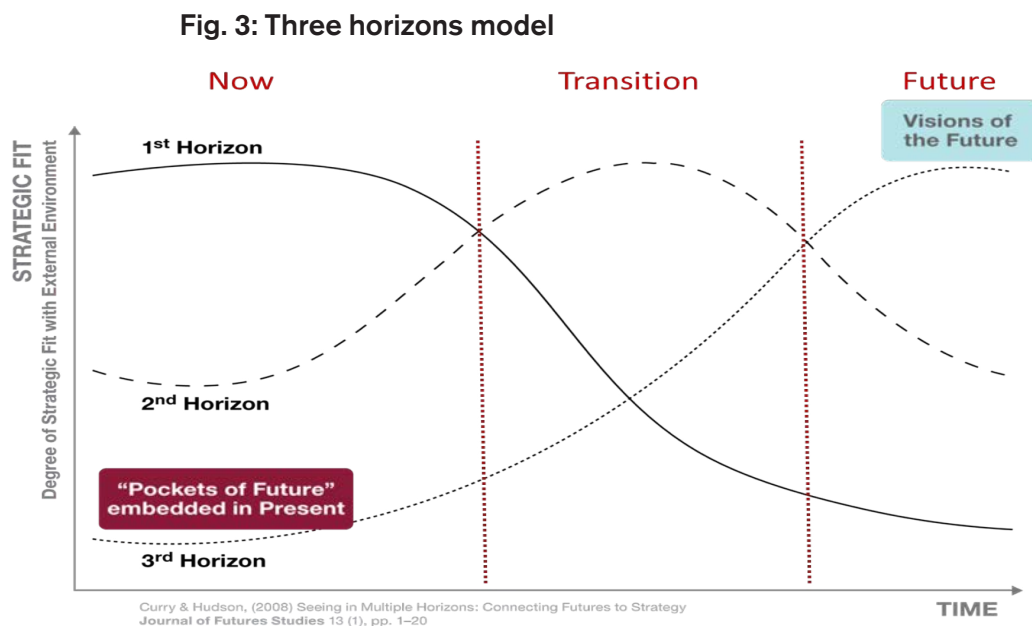
### Blueprints for change

We utilised the three horizons framework, developed by the International Futures Forum, as an intuitive way of thinking about how change happens over time.<sup>36</sup> It presents three horizons, which are always present at any one point in time. Horizon 1 (H1) is the dominant, prevailing paradigm, supported and maintained by systems, resources and infrastructure. This is the current welfare benefits system.

Horizon 3 (H3) is the vision and ambition for how things could be, new systems, approaches, ways of doing things that arise out of transformational change. In terms of Basic Income this is full deployment of a new system across Fife, or Scotland or the UK.

Horizon 2 (H2) is the disruptive, transformative zone of innovations between these horizons, some of which will stick, some of which won't. The blueprints we have developed for the experiment in Fife represents a horizon 2 innovation. These are matched by the fiscal modelling which appears in the next chapter.

The model is shown visually below:



Drawing on the insights presented above, and the work with citizens and stakeholders, we co-developed blueprints with the various groups for implementing a Basic Income that addresses each of the three priority areas. These blueprints could serve the basis for action alongside a pilot or experiment for thinking through the systemic changes that could be catalysed by a full implementation of Basic Income. The blueprints summarise the following information:

<sup>36</sup>. [internationalfuturesforum.com](http://internationalfuturesforum.com). (2019). *Three Horizons*. [online] Available at: [www.internationalfuturesforum.com/three-horizons](http://www.internationalfuturesforum.com/three-horizons) [Accessed 17 April 2019]

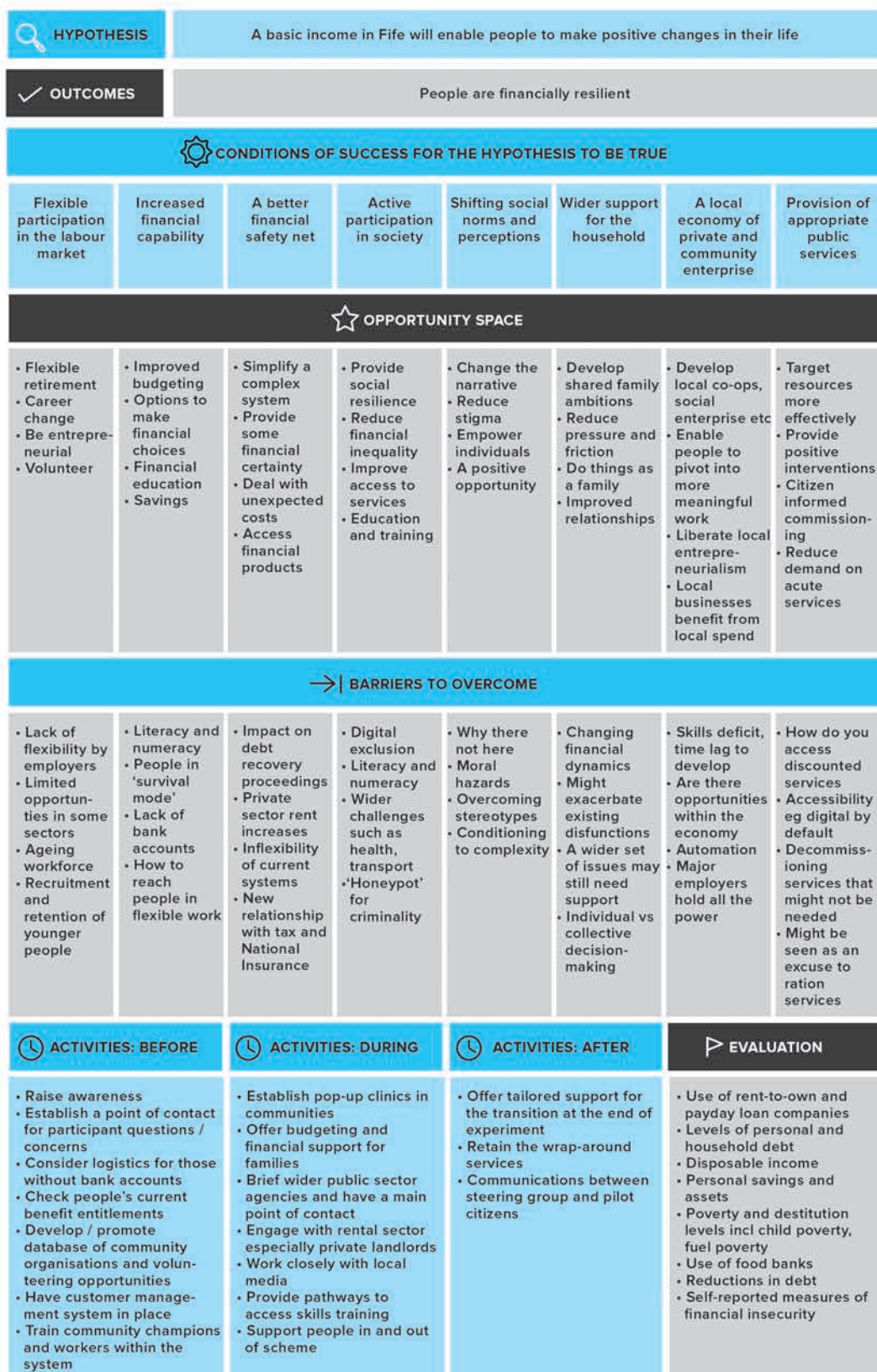
- The overarching hypothesis the blueprints are designed to test.
- The intended outcome for each priority area.<sup>37,38</sup>
- The critical success factors that need to be in place for each outcome to be achieved.
- The opportunities and barriers to be addressed for each critical success factor.
- The activities to be undertaken before, during and after implementation of a basic income experiment.
- The indicative measures to evaluate impact and track progress towards the outcome.

The blueprints were designed to place Basic Income at the heart of a whole civic response where public, private, voluntary and community organisations act with a degree of coordination in order to better amplify positive outcomes from receiving a Basic Income. They are designed to place Basic Income in context, seeing it as a lever and catalyst for change rather than the totality of change at the individual, household and system level. Below we lay out the blueprint for change aiming at better outcomes in work and economic security as an example. Two further blueprints for health and wellbeing and communities are available in the appendix.

37. For the sake of clarity, we define an Outcome as the intended end result, described as a quality of life condition for people in Fife. It is by definition aspirational. An end result cannot be described in terms of short- / medium- / long-term time horizons.

38. Resultsaccountability.com. (2019). *Results Accountability | Results-Based Accountability and Outcomes-Based Accountability resources provided by the Fiscal Policy Studies Institute (FPSI)*. [online] Available at: [resultsaccountability.com/](https://resultsaccountability.com/) [Accessed 17 April 2019]

Fig. 4: Work and economic security: a blueprint for change



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# Three horizons of economic security for Scotland

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The horizon of change within tax and benefits systems is long and continuous. From a range of perspectives, including poverty, the experience of poverty and economic insecurity, the current horizon is sub-optimal as we have seen from testimony of local residents in Fife. To move to a system that has different characteristics will take more than one Parliament of reform. The current targeted system of tax, tax credits and benefits has been evolving over the course of at least five Parliaments.

Changes made to the system of pensions provide encouragement. A goal of higher basic State Pension plus automatic enrolment in subsidised pensions schemes was established as an objective by the Pensions Commission in 2005.<sup>39</sup> With a clear objective established with cross-party support, the goal of a significantly enhanced state pension was achieved within two Parliaments, ahead of schedule.

With these trajectories of change in mind, working with the Landman Economics tax-transfer model, a set of principles for a future system of tax and social support was established with a series of underlying principles applied in establishing a feasible system:

- The system should operate on a progressive basis, with greater benefits accruing in relative terms to individuals and households in lower income quintiles.
- There should be no net loss for individuals or households receiving less than the household median income.
- Any scheme should reduce poverty and destitution.
- Net costs should be affordable within the context of previous changes within a five-year timeframe of changes to the overall level of state expenditure.
- Any scheme proposed should have a significant element compliant with the standard Basic Income Earth Network (BIEN) definition of Universal Basic Income: “a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement.”<sup>40</sup>

39. Department for Work and Pensions, (n.d.). *A New Pension Settlement for the Twenty-First Century, The Second Report of the Pensions Commission* [pdf] Department for Work and Pensions. Available at: [webarchive.nationalarchives.gov.uk/+/http://www.dwp.gov.uk/publications/dwp/2005/pensionscommreport/main-report.pdf](http://webarchive.nationalarchives.gov.uk/+/http://www.dwp.gov.uk/publications/dwp/2005/pensionscommreport/main-report.pdf)

40. Basicincome.org. (n.d.). *About Basic Income | BIEN*. [online] Available at: [basicincome.org/basic-income/](http://basicincome.org/basic-income/) [Accessed 17 April 2019]

- Those with particular needs for financial support such as those requiring assistance for disabilities, help with childcare, or with housing, should receive a level of support at least equal to current arrangements in addition to any Basic Income (with a clear understanding that these other systems should not be a back door to the types of conditionality and sanctioning associated with Universal Credit).
- To the extent that Universal Credit remained in place, it could not be operated with systems of conditionality that conflict with the principles of the BIEN definition of Universal Basic Income.
- The schemes were not required to be revenue neutral or funded entirely through the Income Tax system. Indeed, we see ‘social inheritance’ or ‘social dividend’ forms of Basic Income as very worthwhile avenues for exploration. These could be funded, for example, via levies on incursions into common resources (such as the environment, or private data), taxes on wealth accumulation or profits (as these profits are enabled by common institutions such as law or private intellectual property or public investment in innovation) or returns and dividends from collectively owned assets.

On this basis, we have developed and tested two possible models for a Basic Income based system of tax and social support. A horizon 3 model represents a replacement of the current system of Universal Credit entirely, while retaining other benefits including disability benefit, housing benefit, childcare support and incapacity benefit. This could be achieved within a 20-year timeframe. The horizon 2 model establishes an initial Basic Income that sits alongside Universal Credit and is realisable within the timeframe of a single Parliament. These are indicative models designed to demonstrate key features of possible Basic Income systems rather than proposals per se.

Before looking at the models in more detail, it is important to emphasise an important caveat. The micro-simulation methodology this analysis deploys is an important tool but has limitations. It enables us to look at current incomes of a range of different households and robustly understand how their incomes would change in a different system whilst understanding the overall net costs that the alternative system would generate. However, incomes are based on current behaviours that are incentivised and disincentivised by the current system of taxes, credits and benefits. It is impossible using this methodology to understand how these behaviours would shift as a result of, for example, impacts on choices between leisure, caring and working time or any increased propensity to work on account of more favourable marginal deduction rates (effective overall tax rates) under Basic Income versus Universal Credit, or the impacts on wages of a Basic Income system (which the IMF has modelled to be positive).<sup>41</sup> Therefore, these findings would need to be supplemented by real world assumptions which, in itself, is a strong argument in favour of high-quality Basic Income experiments.

<sup>41</sup> International Monetary Fund (2017) *IMF Fiscal Monitor: Tackling Inequality*, October 2017. International Monetary Fund.

A second important caveat applies to the outputs of these models which are, naturally, metric-centric, eg measures of relative poverty. But these metrics should be placed in wider context. For example, recent modelling by IPPR Scotland concluded that Basic Income would increase rates of poverty which seems perverse given that it involves more secure levels of financial support across a wider range of families. On closer inspection, it would appear that payment of Basic Income on the IPPR model (which is significantly less progressive than the model we outline here) was pushing up the median income line and, as relative poverty is defined in relation to this line, more families were caught in relative poverty.<sup>42</sup> So, despite the fact that many lower income families were significantly better off, poverty was increasing. We don't find that outcome in these models but caution nonetheless needs to be applied when considering abstract metrics. This is one reason why such abstract metrics need to be viewed alongside wider qualitative measures of experience of poverty and economic security. Metrics are critical to this discussion which is why we have undertaken this analysis, but taken alone they can misdirect discussion and this could have negative impacts on individuals and families as it can steer policy in a path dependent direction, precisely what has occurred with means-testing over more than two decades. Policy makers concerned with social justice will want to avoid this path dependency.

### The indicative models

Below are the parameters of the horizon 3 model:

**Table 1: Horizon 3 model**

Parameter	Value per annum
Basic Income (18+)	£4,800
Basic Income (child)	£3,000
Universal Basic Pension (66+)	£8,780
Income Tax personal allowance	£1,500
Income Tax rates (gross income)	19 percent (£1,500-£14,549)
	21 percent (£14,549-£24,944)
	23 percent (£24,944-£43,430)
	42 percent (above £43,430)
	50 percent (above £75,000)
<b>National Insurance rates</b>	
Primary threshold	£1,500
Rate between primary threshold and upper earnings limit	12 percent
Upper Earnings Limit	£43,430
Rate above Upper Earnings Limit	4 percent

The horizon 2 model has the same parameters but is based on current Income Tax rates. On this basis, there would be no increase in higher rate

42. IPPR Scotland (2018). *How much would it cost to reduce child poverty in Scotland? The financial scale of child poverty in Scotland* [online] IPPR Scotland. Available at: [www.ippr.org/research/publications/child-poverty-in-scotland](http://www.ippr.org/research/publications/child-poverty-in-scotland) [Accessed 17 April 2019]

and no additional rate at £75,000. The Basic Income payments would be £2,400 for adults and £1,500 for children. The contributory basic State Pension and Pensions Credits would remain in this model. This would be a transitional move, as is the feature of horizon 2 models. The horizon 2 model in effect translates the existing Income Tax and National Insurance allowances into a cash sum. In this, it bears some similarities to recent models proposed by the Compass and New Economics Foundation thinktanks.<sup>43,44</sup> The RSA has previously supported this possible route.<sup>45</sup>

A £1,500 personal tax and primary threshold is left in place so there is a tax-free ramp from zero to low earnings, thereby smoothing the transition into work. This will be particularly useful for groups such as students who supplement their incomes with low hours part-time work. The impact of this is to effectively boost Basic Income payments by £500 per annum for those earning in excess of £1,500 per annum. Under this transitional system, there would still be potential losers should the means-tested system of Universal Credit be removed immediately. To refer back to the case of the Pensions Commission and its recommendation for significantly enhanced basic State Pension, that Commission recommended that the Pensions Credit system be kept in place during the transition. Once potential losses are eliminated then the legacy system, Universal Credit, can be removed and this point is reached in horizon 3.

When micro-simulation models of the impacts of Basic Income have been undertaken in the past, the aim has been to produce models that are internally revenue neutral. In effect, this has often meant funding Basic Income directly via Income Tax or National Insurance.<sup>46</sup> There is an analytical neatness to this approach but it is also problematic. There is no logical reason why a Basic Income should be funded by the Income Tax or National Insurance systems alone without supplement from other funding sources. We present options for closing funding gaps below and they should be seen as options as opposed to final proposals.

In these models we did not require revenue neutrality, income tax increases to fund different levels of Basic Income. Instead we constructed the baseline model as above with some uplift in tax rates for those earning above median incomes. In a Basic Income system tax rates become less important than net tax gains and losses in cash terms. It was felt necessary to increase the marginal deduction rate, Income Tax plus National Insurance rate, above median earnings in order to withdraw some of the net gains from Basic Income for those in the upper quintiles. In fact, there is considerable scope to raise further taxes on upper quintiles in this model to enable a greater degree of progressivity. To place this in context, George Osborne, when Chancellor of the Exchequer, did precisely this for

43. Lansley, S. and Reed, H. (2019) *Basic Income for All: From Desirability to Feasibility* [pdf] London: Compass. Available at: [www.compassonline.org.uk/wp-content/uploads/2019/03/Compass\\_BasicIncomeForAll\\_2019.pdf](http://www.compassonline.org.uk/wp-content/uploads/2019/03/Compass_BasicIncomeForAll_2019.pdf)

44. New Economics Foundation (2019). *Nothing Personal, Replacing the personal tax allowance with a weekly national allowance*. [online] New Economics Foundation. Available at: [neweconomics.org/2019/03/nothing-personal](http://neweconomics.org/2019/03/nothing-personal)

45. Painter, A. (2016) The next great tax reform: Universal Basic Income. *City AM* [online] 12 May. Available at: [www.cityam.com/240939/the-next-great-tax-reform-universal-basic-income](http://www.cityam.com/240939/the-next-great-tax-reform-universal-basic-income)

46. Basic Income UK (n.d.). *Current schemes*. [online] Available at: [www.basicincome.org.uk/current\\_schemes](http://www.basicincome.org.uk/current_schemes) [Accessed 17 April 2019]



earners over £100,000 to withdraw some of their net gains from increases in personal allowances. So, in our system most of those who earn over the median income have a higher tax rate but nonetheless still receive net cash benefits overall.

### Incomes and inequality

In terms of net impact on incomes, the horizon 2 model has the following effects on a quintile basis:

**Table 2: Horizon 2 model impact on income by quintile**

Income quintile	Average household income (baseline)	Horizon 2 scheme	
		Average change in income (£/week)	Average change in income (percent)
1st (poorest)	£186.29	20.22	10.9
2nd	£345.44	14.89	4.3
3rd	£507.38	13.99	2.8
4th	£739.34	13.87	1.9
5th (richest)	£1,329.72	8.28	0.6

The lowest earning quintile benefits disproportionately and, therefore, this particular model would reduce inequality. The fact that benefits are spread across incomes is a feature of Basic Income. Some may see this feature as a weakness but it is, in fact, a strength. The point is that economic insecurity spreads up the earnings ladder. In fact, RSA research has found that 32 percent of people have access to savings of less than £500 in cash and 41 percent have access to less than £1000.<sup>47</sup> And the experience of poverty is far wider than the number of individuals in poverty at any given time. When people are receiving support through a Basic Income, that takes their income beyond their normal needs, meaning they are then able to reduce debts and increase savings, thereby increasing economic resilience over time. Access to assets is a key component of economic security so progressive models of Basic Income such as this one serve not just to manage poverty downwards; they help secure a wider distribution of access to net assets. As Asheem Singh has argued:

“UBI is a fascinating idea; its dividend is a form of individual wealth-building, but the capital that undergirds the dividend is a contribution to the wealth of all. Whether you support UBI or not, building that collective capital lies at the heart of the wealth inequality challenge.”<sup>48</sup>

We can refine Basic Income to help address wealth inequalities even further. These models are not revenue neutral and, therefore, require further funding. Potential gains amongst upper quintiles provide headroom to tax higher incomes, wealth, land and other means of reducing concentrations of wealth to fund Basic Income and we explore some of

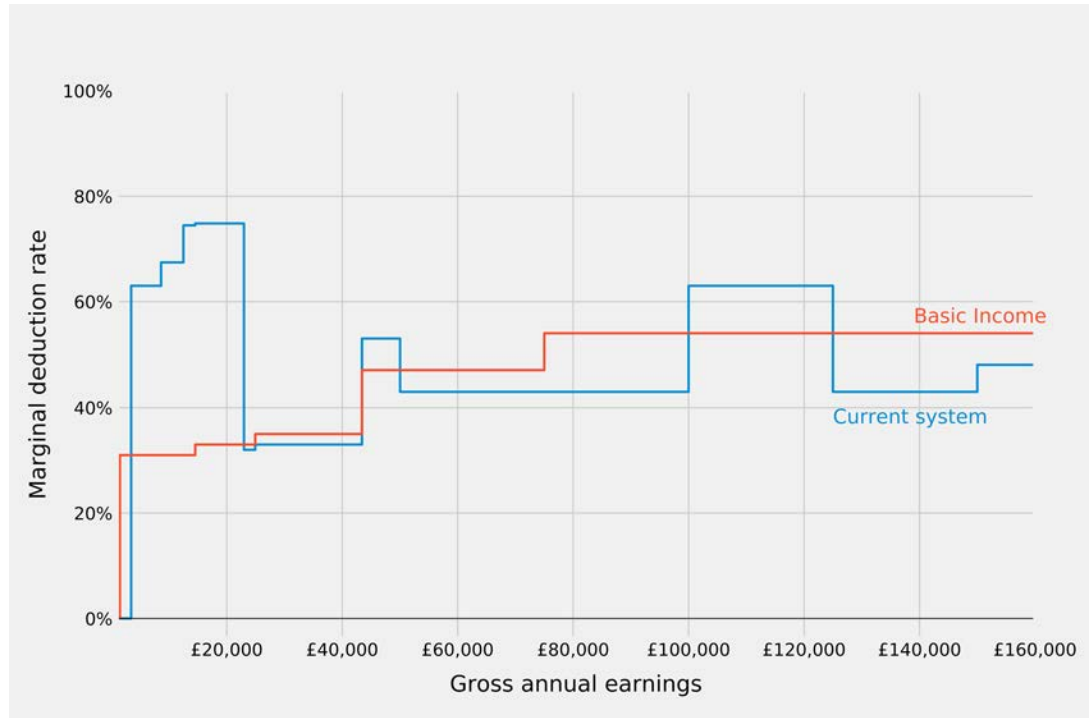
47. Shafique, A. (2018) Op cit.

48. Singh, A. (2019) The economics of belonging: Why fairness between the generations requires a new approach to wealth. *RSA Journal Medium* [online]. Available through medium.com/rsa-journal/the-economics-of-belonging-1d11c10c9a29

these below. Therefore, the final impacts of the approaches outlined here, once the funding gap has been closed, would be just as generous to those around and below median earnings but far less generous to those in the upper quintile.

The progressive nature of the horizon 2 system can be seen in the following graph which maps effective tax rates (the marginal deduction rate) of the system versus the current system including Universal Credit:

**Fig. 5: Marginal rate schedule**



Using the example of a lone parent with two children, the horizon 2 model has no losers earning below just under £80,000 with those on higher incomes paying more into the system. With additional progressive measures this gain/loss inflexion point could decline but winners would still far outweigh the losers.

**Poverty and destitution**

In terms of impact on poverty, both horizon 2 and 3 models have a measurable impact. To take one measure of poverty, relative poverty before housing costs,<sup>49</sup> the impacts are as follows:

49. Many prefer alternative measures of poverty such as relative poverty after housing costs. For our purposes, the measure is not important as we are not varying housing costs in our model so the results will be similar.

**Table 3: Impact of Basic Income schemes on poverty\***

Group	Households	Children	Adults	Pensioners
<b>Baseline (actual system)</b>				
Number in relative poverty	479,249	184,929	550,429	162,206
Total number in group	2,543,235	1,028,566	3,460,912	1,000,410
Proportion in relative poverty (percent)	18.8	18.0	15.9	16.2
<b>Horizon 2 system</b>				
Number in relative poverty	438,556	167,279	487,367	148,259
change relative to baseline	-40,693	-17,650	-63,062	-13,947
Proportion in relative poverty (percent)	17.2	16.3	14.1	14.8
change relative to baseline (percent)	-1.6	-1.7	-1.8	-1.4
<b>Horizon 3 system</b>				
Number in relative poverty	343,487	123,739	354,808	108,183
change relative to baseline	-135,762	-61,190	-195,621	-54,023
Proportion in relative poverty (percent)	13.5	12.0	10.3	10.8
change relative to baseline (percent)	-5.3	-5.9	-5.7	-5.4

\*BHC relative measure (households below 60 percent median income in the sample year)

The horizon 2 model sees an 8.5 percent reduction in poverty for households and the horizon 3 model a 28 percent reduction (with a 33 percent reduction in child poverty). To re-emphasise, these numbers are before behavioural impacts. To re-visit the arguments of the opening section of this report, not only would poverty be reduced but powerlessness would be reduced for those who remain in poverty as they will be able to enjoy greater economic security and less micro-management of their behaviours by the welfare state. Quantitative measures of poverty should never be taken in isolation of the wider impacts on the individual.

In our deliberations with citizens in Fife, it was clear that the general view of what constitutes poverty is very different from the analytical measures common with Government and the social policy community. In fact, in general, people are more likely to view ‘poverty’ as more akin to ‘destitution’. The Joseph Rowntree Foundation also tracks a measure of destitution which they define as follows:

“Destitution means going without the bare essentials we all need. That’s a home, food, heating, lighting, clothing, shoes and basic toiletries. We define destitution as when people have lacked two or more of these essentials over the past month because they couldn’t afford them; or if their income is extremely low – less than £70 a week for a single adult.”<sup>50</sup>

The horizon 2 and horizon 3 models both have a highly significant impact on destitution as can be seen below:

50. Goulden, C. (2018) *What is destitution?* Joseph Rowntree Foundation, [blog] 7 June. Available at: [www.jrf.org.uk/blog/what-destitution](http://www.jrf.org.uk/blog/what-destitution) [Accessed 17 April 2019]

**Table 4: Impact of Basic Income schemes on destitution (JRF measure)**

Group	Households	Children	Adults	Pensioners
<b>Baseline (actual system)</b>				
Number in destitution	52,875	1,697	76,372	2,516
Total number in group	2,543,235	1,028,566	3,460,912	1,000,410
Proportion in destitution (percent)	2.1	0.2	2.2	0.3
<b>Horizon 2 system</b>				
Number in destitution	28,106	207	33,752	2,356
change relative to baseline	-24,769	-1,490	-42,620	-160
Proportion in destitution (percent)	1.1	0.0	1.0	0.2
change relative to baseline (percent)	-1.0	-0.1	-1.2	0.0
<b>Horizon 3 system</b>				
Number in destitution	0	0	0	0
change relative to baseline	-52,875	-1,697	-76,372	-2,516
Proportion in destitution (percent)	0.0	0.0	0.0	0.0
change relative to baseline (percent)	-2.1	-0.2	-2.2	-0.3

The significant findings here are that destitution is halved under the horizon 2 model and *eliminated entirely* under the horizon 3 model. The horizon 2 model almost *eliminates child destitution*. The point here is that Universal Credit as currently designed cannot eliminate destitution. This is not due to the way it distributes cash but to do with conditionality. Where trust is impaired between claimants and Jobcentre Plus as a result of the intrusive nature of Universal Credit then individuals may not claim what they are entitled to, and conditions can also lead to sanctions. And given the rules over delays to payments and loans made to some claimants in a situation of extreme hardship, when those payments must be repaid then destitution can occur. Moreover, rent arrears and debts resulting from insufficiency of Universal Credit payments further push some into destitution. A Basic Income, designed in the right way, eliminates destitution in a way that Universal Credit simply cannot.

### Net costs and closing any funding gap

In 2017-18, Scottish GDP was £156bn and public expenditure was 43.1 percent of GDP (including North Sea Oil revenues) which is at the EU average.<sup>51</sup> UK overall public expenditure was at 38.4 percent of GDP which is significantly below the EU average. Our working assumption is that Scotland obtains greater devolved powers over tax and expenditure in the following costings and that the Barnett formula remains in place.<sup>52</sup>

The horizon 2 model we have outlined would require an additional net fiscal contribution of £1.9bn which is 1.2 percent of Scottish GDP. By

51. Scottish Government (2018). *Government Expenditure and Revenue Scotland: 2017-2018*. [online] Scottish Government. Available at: [www.gov.scot/publications/government-expenditure-revenue-scotland-2017-18/](http://www.gov.scot/publications/government-expenditure-revenue-scotland-2017-18/) [Accessed 17 April 2019]

52. En.wikipedia.org. (n.d.). *Barnett formula*. [online] Available at: [en.wikipedia.org/wiki/Barnett\\_formula](http://en.wikipedia.org/wiki/Barnett_formula) [Accessed 17 April 2019]

way of comparison, the changes to Corporation Tax alone made in the UK since 2010 are in the region of this level. Therefore, we are not talking historically enormous shifts in public expenditure to fund an initial Basic Income system. With the right powers and political will this could be achieved with a single parliamentary session. The horizon 3 model (as the name implies) is a longer-term proposition with a cost of £9.6bn. Clearly, this would take a number of five-year parliamentary sessions to achieve hence it is a horizon 3 model.

So how could Scotland close these funding gaps? We have costed a range of alternatives. These are simply a range of possible measures for illustration and not proposals. They serve as a means of visualising and understanding a series of possibilities.

- **Growth escalator.** To fund the significant increases in tax credits expenditure in the 1997-2010 Labour Government the ‘proceeds of growth’, ie the positive fiscal drag effects of growth on tax revenues, were diverted into funding tax credits. So, despite an increase in funding of over one percent of GDP, there was no increase in corresponding tax rates. We have assumed a period of 2 percent growth for 10 years (more typical of the 2000s than the 2010s admittedly) and have assumed that 50 percent of the positive fiscal drag would be diverted to fund an increasing Basic Income. On this basis, an additional £3.6bn would be used to fund Basic Income, which closes 38 percent of the horizon 3 funding gap (and is more than double the horizon 2 funding gap which means it could almost be funded entirely in this way over a single fiscally balanced Parliament).
- **Income Tax rises for above median earners.** An increase of 3 percent on the intermediate, higher and additional rates in the models we have outlined would raise £857m, 9 percent of the horizon 3 funding gap. A 5 percent rate would raise £1.4bn which would be 15 percent of the gap. Even the increases in rates would leave the vast majority of people living in Scotland better off and would reduce inequality significantly. Even with 5 percent on the intermediate, higher and additional rates, a lone parent with two children would need to earn well over £100,000 before they started to register losses compared with the current system. There is, therefore, significant fiscal headroom.
- **Lower Basic Income.** A rate of £80 per week for adults rather than £92 would save £1.9bn which is 20 percent of the horizon 3 funding gap. Even at this level, destitution would be eliminated. This also shows how a Scottish Government could ladder the level of Basic Income upwards over time. An £80 per week model would still have major impacts on poverty and inequality and would essentially be a ‘horizon 2.5’ model.
- **Increasing VAT.** An increase of VAT in Scotland of 2 percent would fund 10 percent of the horizon 3 funding gap. Whilst sales taxes are often regressive, the structure of VAT with exemptions, such as for food, and lower rates, such as for fuel, mitigate this. We have calculated that the impact on each quartile would be slightly regressive with the lowest quintile seeing an income drop

by 1.9 percent which would still mean an overall increase of 25.8 percent on average instead of 27.7 percent. The middle quintile would see a drop of 0.9 percent with an overall increase of 11.9 percent rather than 12.8 percent.

- **Corporation Tax.** The IFS has estimated that the announced change in Corporation Tax from 28 percent in 2010 to 17 percent in 2020 will cost the Exchequer at least £16.5bn per year nationally. Reversing this, or even just raising Corporation Tax to the mid-20s would go a long way toward funding a horizon 2 model in Scotland.<sup>53</sup>
- **Land Value Tax.** The Scottish Land Commission defines land value tax as:

“A recurrent tax on landowners based on unimproved land value, usually levied as a percentage of the unimproved capital value of the site. Normally there is an assumption that the unimproved land has the right to be developed in accordance with its ‘highest and best use’.”<sup>54</sup>

Such taxes are in operation in several countries including Australia, New Zealand, Estonia and Denmark. The UK’s suite of property taxes includes stamp duty, Council Tax and business rates. However, these taxes are administered in a highly regressive and market distorting way. Council Tax is more likely to fall proportionately on lower value residential properties than very high value ones. And business rates benefit businesses with a low proportional volume of space (for example online platforms such as Amazon) rather than businesses that require a high physical presence.

It should be said that the UK’s overall level of property taxation, at 4 percent, is high by international standards.<sup>55</sup> Therefore, some might question the scope for increasing such taxes much further. There is strong case for reform to make the UK’s property taxation more progressive and less market distorting: land value tax is one of the means of achieving those aims. As an additional revenue raising measure, it may need to be viewed as a component of a new wealth tax.

- **Wealth Taxes.** The top 10 percent of Scottish households own 43 percent of all wealth. The average wealth amongst this group is £1.3m, which is considerable, and they own 9.4 times the wealth of the bottom 40 percent. Given these stark wealth inequalities and the notion that they capture economic rents accumulated over time there is a strong case for redistribution. An annual wealth levy of one percent of net assets of the top 10 percent

53. Miller, H. (2017) ‘Briefing Note: What’s been happening to Corporation Tax?’. Institute for Fiscal Studies. Available at: [www.ifs.org.uk/publications/9207](http://www.ifs.org.uk/publications/9207).

54. University of Reading (2018). *Investigation of Potential Land Value Tax Policy Options for Scotland*. [online] Reading. Available at: [landcommission.gov.scot/wp-content/uploads/2018/12/Land-Value-Tax-Policy-Options-for-Scotland-Final-Report-23-7-18.pdf](http://landcommission.gov.scot/wp-content/uploads/2018/12/Land-Value-Tax-Policy-Options-for-Scotland-Final-Report-23-7-18.pdf) [Accessed 17 April 2019]

55. OECD. (n.d.). *Tax - Tax on property - OECD Data*. [online] Available at: [data.oecd.org/tax/tax-on-property.htm](http://data.oecd.org/tax/tax-on-property.htm) [Accessed 17 April 2019]

would raise £3.7bn, which is 38 percent of our horizon 3 net funding gap. This measure would enormously contribute to greater equality. Land value tax could form part of the mechanism for capturing wealth for redistribution.

- **Climate taxes and dividends.** The Tax Policy Center in the US has estimated that a carbon tax of \$43 per metric tonne would raise just under 2 percent of GDP in tax revenues.<sup>56</sup> These revenues are then available for distribution in the form of cash to individuals. A replacement for existing carbon levies and pricing caps such as the EU Emissions Trading Scheme or a carbon tax supplement to existing UK schemes could be a considerable revenue generator over time. Two notes of caution, however. Firstly, the point of levying carbon taxes is to reduce emissions over time and therefore revenues have limits. Secondly, such taxes can be regressive and, therefore, any cash dividends need to be considered alongside additional costs for families.

This tax and dividend approach was supported by 27 Nobel laureates, 4 former chairs of the Federal Reserve, 15 former chairs of the US Council of Economic Advisers, and two former US treasury secretaries in a public statement.<sup>57</sup> The UK thinktank, Policy Exchange, is also supportive.<sup>58</sup> It is, of course, the essential characteristic of the Alaskan Permanent Fund which is the longest standing ‘Basic Income-like’ intervention in the developed world. Such approaches have been also pursued in Switzerland and Canada. It does not seem impossible that a carbon tax and dividend approach could close at least 10 percent of the horizon 3 funding gap.

- **Citizen wealth funds.** Stewart Lansley and Howard Reed have proposed building a citizen wealth fund with a £100bn endowment with annual cash injections of £25bn on a UK level funded by wealth levies.<sup>59</sup> This would fund roughly a quarter of the horizon 3 funding gap after 20 years. The RSA has also proposed a Universal Basic Opportunity Fund which would be endowed with £200bn and replenished through wealth levies, climate levies, and levies of transfer of the data assets of UK citizens to global digital platforms. These funds would be invested in global equities and UK infrastructure such as affordable housing, transport, energy and digital infrastructure. The RSA scheme over a similar 15 to 20-year timeframe would also be able to fund at least a quarter of the horizon 3 gap. Our preference would be to build up a citizen wealth fund rather than the alternative policy of simply taxing and transferring as then the infrastructure

56. Marron, D. and Maag, E. *How to design carbon dividends* [pdf] Tax Policy Centre, Urban Institute and Brookings Institution. Available at: [www.taxpolicycenter.org/sites/default/files/publication/156300/how\\_to\\_design\\_carbon\\_dividends.pdf](http://www.taxpolicycenter.org/sites/default/files/publication/156300/how_to_design_carbon_dividends.pdf)

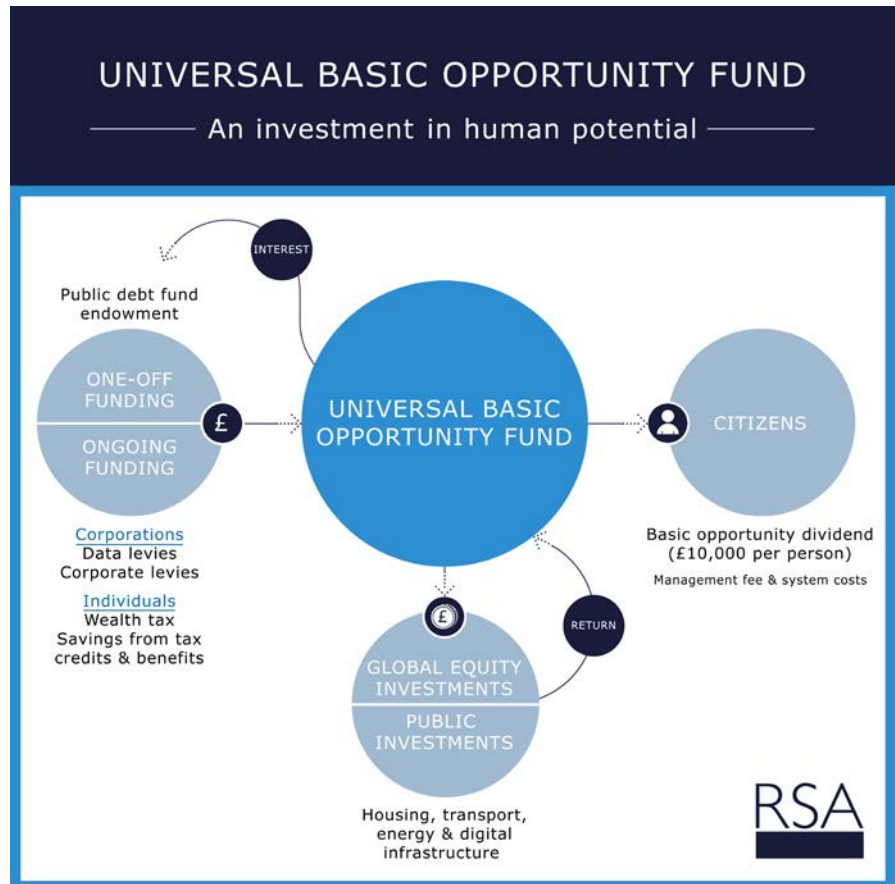
57. Economists’ Statement on Carbon Dividends. (n.d.). *Economists’ Statement on Carbon Dividends*. [online] Available at: [www.econstatement.org/](http://www.econstatement.org/) [Accessed 17 April 2019]

58. Policy Exchange (2018) *The Future of Carbon Pricing Implementing an independent carbon tax with dividends in the UK*. [pdf] London: Policy Exchange. Available at: [policyexchange.org.uk/wp-content/uploads/2018/07/The-Future-of-Carbon-Pricing.pdf](http://policyexchange.org.uk/wp-content/uploads/2018/07/The-Future-of-Carbon-Pricing.pdf)

59. Lansley, S. and Reed, H. (2019) Op cit.

benefits could be captured.<sup>60</sup> Below is an illustration of the RSA scheme:

**Fig. 6: Universal Basic Opportunity Fund**



### A new social contract

From the above analysis, two immediate conclusions become apparent. Firstly, the horizon 2 model is absolutely feasible in the short-term in the context of the scale of historical shifts in tax and expenditure. Following experiments into Basic Income, Scotland could begin to negotiate with the UK Government the powers it needs to act, and these are explored in chapter 5. The horizon 3 model requires a deeper consideration of the political economy with new contracts between citizens and the state around wealth, the environment, and income. Categories that we currently view tax and Government revenues through, such as tax rates, become less important than the overall cash positions of different types of individuals and households. Even the size of the state becomes a different concept as it would appear larger under a Basic Income for the simple fact that more resource was being redistributed through its structures. Paradoxically, however, it would be less intrusive a presence in the life of those who are precarious and need support as conditionality would be removed.

60. Painter, A., Thorold, J. and Cooke, J. (2018) *Pathways to Universal Basic Income, the case for a Universal Basic Opportunities Fund* [online] London: Royal Society of Arts. Available at: [www.thersa.org/discover/publications-and-articles/reports/pathways-to-universal-basic-income-the-case-for-a-universal-basic-opportunity-fund](http://www.thersa.org/discover/publications-and-articles/reports/pathways-to-universal-basic-income-the-case-for-a-universal-basic-opportunity-fund) [Accessed 17 April 2019]



New ways of thinking about collective wealth and assets will need to be considered in order to move towards a horizon 3 system over time. We can see elements of this new system in case studies across the world from Alaska to Canada to Switzerland to Denmark and Australia. The ideas presented above aren't simply abstract and theoretical constructs: they have form and substance and successful real-world application. Whichever blend of mechanisms were pursued it would ensure they are progressive in order to mitigate and reduce current wealth and income disparities. Basic Income is grounded in notions of the common wealth and social justice. Therefore, progressive means of funding a Basic Income would be preferable. The development of a sovereign wealth or citizen wealth fund also has potential: not least because the fund could be invested in much needed infrastructure, climate transition and housing. Our recommendation would be to explore funding mechanisms that are progressive, pool common wealth, and create wider economic value.

A new social contract requires and invites a very different form of political leadership, theory of change and public discourse. How would Scotland begin to make this shift? We explore this question in the next chapter.

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# Three scenarios of policy change

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The discussion of Basic Income in Scotland has developed very rapidly over the past few years. It has picked up support from different parts of the political spectrum and for different reasons, and this report seeks to chart potential paths forward for exploring the possible impacts highlighted in our work in Fife and wider research.

Scottish interest in Basic Income has been long standing, as evidenced by the work of economists such as Annie Miller and the late Professor Ailsa MacKay. However, serious contemporary political interest can be traced back to the launch of the Fairer Fife Commission report, *Fairness Matters*<sup>61</sup> in 2015, which recommended piloting Basic Income in a town in Fife, published almost simultaneously with the first RSA Basic Income report *Creative Citizen, Creative State*.<sup>62</sup> Resting on the work that had already been undertaken, these two publications offered a context and catalyst for taking forward Basic Income in Scotland. *Fairness Matters* built on what the Scottish Government's Expert Group on Welfare called a 'new approach to social security', focusing on the root causes of poverty, placing Basic Income in a systemic context. The report highlighted that benefit cuts and in-work poverty were contributing to destitution and indicated that welfare conditionality played a significant role. Conditionality and the punitive nature of sanctions were also outlined as contributing to the lack of trust between the DWP and those on benefits. The report also focused on Basic Income's potential to increase access to the workforce for the marginalised, especially women. And all the time the rollout of Universal Credit and the discussion of fiscal powers for Scotland were in the background.

Since the *Fairness Matters* report and Fife council expressing its wish to host a Basic Income experiment, poverty reduction has appeared to be the main focus of discussion around Basic Income amongst most groups. The city of Glasgow announced its intentions to test the feasibility of an experiment in 2016, with North Ayrshire and Edinburgh following in 2017. Glasgow and Edinburgh councils have focused on poverty especially, each in a different context as poverty is geographically scattered in the former but geographically concentrated in the latter. North Ayrshire

61. Fairer Fife. (n.d.). *Working towards a Fairer Fife - Fairer Fife*. [online] Available at: fairer.fife.scot/ [Accessed 17 April 2019]

62. Painter, A. and Thoung, C. (2015) *Creative citizen, creative state- the principled and pragmatic case for a Universal Basic Income* [online] London: Royal Society of Arts. Available at: www.thersa.org/discover/publications-and-articles/reports/basic-income [Accessed 17 April 2019]

council's draw to Basic Income also incorporates social and economic opportunity and women's participation in the workforce.

In 2016, the ruling Scottish National Party (SNP) passed a motion endorsing Basic Income in the nation. It read: "a Basic or Universal Income can potentially provide a foundation to eradicate poverty, make work pay and ensure all our citizens can live in dignity."<sup>63</sup> In 2017, following this statement of intent, the Scottish Government announced £250,000 of funding for studying the feasibility of Basic Income experiments in its Programme for Government. The announcement was framed as a response to a political climate overshadowed by considerable and ostensibly intractable endemic challenges, including high levels of poverty, inequality and unemployment. Holyrood and the First Minister's office justified investigating Basic Income as a systemic response to these prevalent issues. As outlined in the document, Basic Income relates to "a range of actions ... to tackle *poverty*";<sup>64</sup> "help[ing] to tackle *ingrained inequalities*";<sup>65</sup> and "help[ing] those on the lowest incomes back into work or help them work more hours."<sup>66</sup> More generally, Basic Income has been discussed as a systemic intervention with potentially far reaching long-term ramifications leading to "a fairer and more inclusive nation."<sup>67</sup>

Basic Income is a policy that will likely require further engagement with Scotland's devolution settlement. Although the Smith Commission,<sup>68</sup> set up in the wake of the 2014 Referendum on Scottish Independence, devolved a host of further powers to Scottish Parliament control, and the Scotland Act 2016<sup>69</sup> further devolved control of certain aspects of tax and social security policy, specifically, Scotland has control of about 15 percent of the social security system. Scotland's Welfare minister Jeane Freeman has called this shift "the single biggest transfer of powers since devolution began".<sup>70</sup> In an overhaul of the Scottish social security system, 11 benefits will be devolved along with £3.3bn of spending powers. These benefits include: the Personal Independence Payment (PIP), which will be assessed in an entirely different way; a new more generous carer's allowance and young carer's grant; a redesign of child benefit; funeral expense assistance; and the creation of a new income supplement to combat child poverty. While the transfer of powers has already begun, Scottish Parliament will only take full control of this new welfare system in 2021. Scotland has

63. West, J. (2016). *Scotland: Scottish National Party Conference calls for universal income*. Basic Income Earth Network. Available at: [basicincome.org/news/2016/03/scotlandconference-members-call-for-universal-income/](http://basicincome.org/news/2016/03/scotlandconference-members-call-for-universal-income/)

64. Sturgeon, N. (2017) *First Minister Nicola Sturgeon's statement on the Programme for Government* Available at: [www.snp.org/first-minister-nicola-sturgeon-scottish-programme-for-government/](http://www.snp.org/first-minister-nicola-sturgeon-scottish-programme-for-government/)

65. Programme for Government (2017) *A nation with ambition: the Government's Programme for Scotland 2017-2018* Available at: [beta.gov.scot/publications/nation-ambition-governments-programme-scotland-2017-18/pages/10/](http://beta.gov.scot/publications/nation-ambition-governments-programme-scotland-2017-18/pages/10/)

66. Ibid.

67. Sturgeon, N. (2017) Op cit..

68. The Smith Commission (2014) *Report of the Smith Commission for further devolution of powers to the Scottish Parliament* [pdf] The Smith Commission. Available at: [webarchive.nationalarchives.gov.uk/20151202171029/http://www.smith-commission.scot/wp-content/uploads/2014/11/The\\_Smith\\_Commission\\_Report-1.pdf](http://webarchive.nationalarchives.gov.uk/20151202171029/http://www.smith-commission.scot/wp-content/uploads/2014/11/The_Smith_Commission_Report-1.pdf)

69. Scotland Act 2016 (c.11) The Scottish Parliament and the Scottish Government

70. Macnab, S. (2018) Scots welfare approach to be 'different' as MSPs pass new benefits system, *The Scotsman* [online] 25 April. Available at: [www.scotsman.com/news/politics/scots-welfare-approach-to-be-different-as-mmps-pass-new-benefits-system-1-4730507](http://www.scotsman.com/news/politics/scots-welfare-approach-to-be-different-as-mmps-pass-new-benefits-system-1-4730507)

several key powers related to potential Basic Income experiments, including the right to top-up reserved benefits with discretionary payments, the creation of new benefits in devolved areas and the power to set Income Tax rates and thresholds for non-savings and dividend income.<sup>71</sup>

However, control over Universal Credit and other social security measures are to be retained by Westminster. This means that, even with political will, Scotland is not in the position to deliver a Basic Income system for the country at this point. Given the potential impacts modelled in this report, it is essential to chart potential paths forward for the work, so that Scotland is able to decide on the desirability of a Basic Income centred system. However, as outlined in a recent paper by Paul Vaughan of Fife Council, following a letter from the chair of the Social Security Committee and the Scottish Parliament evidence session on Basic Income, local government has the legal authority to enact Basic Income experiments through the Local Government in Scotland Act 2003, on the basis of advancing wellbeing. This is with the caveat that cooperation with Scottish and UK Governments is crucial (especially with the Department for Work and Pensions and Her Majesty's Revenue and Customs) because of the implications for both tax and welfare policy.<sup>72</sup>

Social security policy in Scotland is developed and delivered on three levels: the UK Government (primarily Her Majesty's Treasury, the DWP and HMRC); the Scottish Government (primarily through the Scottish Social Security agency set up in 2018 following the passing of the Social Security (Scotland) Act<sup>73</sup>); and local authorities (in terms of direct delivery). The Scottish Government recognises social security as a human right, and has set out a series of core principles for the provision of social security in Scotland.<sup>74</sup> The focus on social security as an investment in the people of Scotland meshes well with the underlying principles of Basic Income, demonstrating that the policy would sit within the goals and intentions of the system as it is, and intends to be. Our models have shown that Basic Income responds to poverty and inequality goals albeit within a wider frame of experience of poverty and economic security. The complexities of the interactions (and tensions) between the different levels of UK and Scottish Government, means that creativity will be required in order to progress with Basic Income as either an experiment or actual policy.

Politically, Basic Income enjoys a firm basis of support across much of the political spectrum in Scotland. It has been a long-standing policy for the Scottish Green Party, and the support for the feasibility work in Scotland has been provided by a Scottish National Party government, with motions passed in support of the policy at their national conferences. The Scottish Labour Party has not yet taken an official stance, but the development of interest in Basic Income experimentation across the

71. Scottish Parliament (2016) *Citizen's Guide to Scottish Devolution* Available at: [www.parliament.scot/20160317\\_DevolutionGuide.pdf](http://www.parliament.scot/20160317_DevolutionGuide.pdf)

72. Vaughn, P. and Barclay, C. (2017) *Towards a Universal Basic Income – Report by the head of the communities and neighbourhoods service*; Available at: [publications.fifedirect.org.uk/c64\\_agendapapers130917public.pdf](http://publications.fifedirect.org.uk/c64_agendapapers130917public.pdf)

73. Social Security (Scotland) Act 2018 (asp.9). The Scottish Parliament

74. Socialsecurity.gov.scot. (n.d.). *Social Security (Scotland) Act 2018 Principles*. [online] Available at: [www.socialsecurity.gov.scot/about-us/social-security-scotland-act-2018-principles](http://www.socialsecurity.gov.scot/about-us/social-security-scotland-act-2018-principles) [Accessed 17 April 2019]

four local authority areas who comprise the feasibility group was strongly driven by Labour councillors. It is also worth noting that the UK Labour Party, particularly through Shadow Chancellor John McDonnell, has been open to Basic Income experimentation. There has been wider interest from the Labour Government in Wales and the Labour-led administration in the city of Liverpool. A recent poll, commissioned by the RSA and conducted by YouGov, found that 44 percent of Labour MPs are in favour of Basic Income in principle.<sup>75</sup>

The Scottish Conservative and Unionist Party is officially opposed, supporting the UK Government's policy of Universal Credit. The Scottish Liberal Democrats have had the least official interaction with the Basic Income work in recent years, however there has been grassroots interest from their members.

There is considerable long-standing interest in Basic Income from civil society organisations. In Scotland, Common Weal, an organisation that has been involved in deliberations, frames Basic Income as reducing the conditionality built into contemporary welfare provision and, importantly, a way to remove the withdrawal of benefits as earnings rise. This would mean that those on benefits would keep more of the money they earned, apparently reducing disincentives to work and thus considerably increasing economic security.<sup>76</sup> This final point has been the impetus for Reform Scotland who, in 2016, published a report calling for a Basic Income guarantee to get rid of the 'welfare trap'.<sup>77</sup> Meanwhile, Citizen's Basic Income Network Scotland states Basic Income's primary aims as equality, fairness, and a human right to be free from poverty, while also pointing to reductions in inequality and the benefits of simplifying the bureaucracy of the current welfare system.<sup>78</sup> The RSA's work has covered similar bases whilst also highlighting, following dialogue with stakeholders and welfare recipients, issues such as benefits-related stigma, increased opportunities to learn and retrain, and promoting stronger communities.<sup>79,80</sup> At the same time, NHS Scotland have considered the mental and physical health aspects, as well as highlighting related issues, specifically poverty alleviation.

For Basic Income experimentation to become reality, these dialogues will need to feed into cooperation between the UK and Scottish Governments. There are different routes that the project could take, and this report will suggest how they could happen, aligning with the three horizons discussed in chapters 3 and 4.

Successful progression of Basic Income experimentation in Scotland will require considering methods of overcoming some of the barriers

75. Dellot, B., Wallace-Stephens, F. and Mason, R. (2019) *The Four Futures of Work Coping with uncertainty in an age of radical technologies*. [pdf] London: The Royal Society of Arts. Available at: [www.thersa.org/globalassets/pdfs/reports/rsa\\_four-futures-of-work.pdf](http://www.thersa.org/globalassets/pdfs/reports/rsa_four-futures-of-work.pdf)

76. Common Weal (2018) *The key ideas: Citizen's Income* Available at: [allofusfirst.org/the-key-ideas/a-citizens-income/](http://allofusfirst.org/the-key-ideas/a-citizens-income/)

77. Mackenzie, J. et al. (2016) *The Basic Income Guarantee Reform Scotland*; Available at: [reformscotland.com/wp-content/uploads/2016/02/The-Basic-Income-Guarantee-1.pdf](http://reformscotland.com/wp-content/uploads/2016/02/The-Basic-Income-Guarantee-1.pdf)

78. Citizen's Basic Income Network Scotland (n.d.). *An Introduction to Citizen's Basic Income* Available at: [cbin.scot/wp-content/uploads/2018/06/What-is-a-Basic-Income.pdf](http://cbin.scot/wp-content/uploads/2018/06/What-is-a-Basic-Income.pdf)

79. Painter, A. et al. (2018) *Pathways to Universal Basic Income: the case for a universal basic opportunity fund* RSA; Available at: [www.thersa.org/globalassets/pdfs/reports/rsa\\_pathways-to-universal-basic-income-report.pdf](http://www.thersa.org/globalassets/pdfs/reports/rsa_pathways-to-universal-basic-income-report.pdf)

80. Painter, A. and Thoung, C. (2015) Op cit.

which exist, and likely, in the short-term at least, finding ways to build and test the concept alongside existing structures. Basic Income experiments could be delivered through three key scenarios:

- Agreement with UK Government.
- No agreement with UK Government.
- Non-governmental delivery.

### **Scenario 1 - Agreement with UK Government**

At one point, this would have seemed a very unlikely scenario.<sup>81</sup> Universal Credit has been delivered as the flagship social security policy in the UK, although with a number of significant problems as outlined earlier in this report. There has been some limited ongoing discussion of Basic Income in the UK Parliament in the intervening period, including an Early Day Motion,<sup>82</sup> a very short one-day select committee hearing, and Westminster Hall debate in 2016, but the Government's position has not changed from supporting Universal Credit with this therefore being the default position of the DWP and other governmental departments.

More recently, the UK Labour Party has started to explore ideas around Basic Income experimentation, with the Shadow Chancellor commissioning an independent report by Professor Guy Standing. This interest in Basic Income raises the possibility that a future Labour-led Government (or indeed a Conservative Government which considered a possible need to consider and understand possible future alternatives to Universal Credit), could be open to supporting Basic Income experimentation in Scotland and other parts of the UK, as a way of testing the concept. Likewise, a Conservative Government which continued to support Universal Credit could potentially be convinced of the usefulness of allowing local experimentation. If successful, national policy could be improved; if unsuccessful, then alternative avenues could be pursued.

Experimentation with UK Government support would entail DWP and other relevant bodies playing positive roles within the design, delivery and evaluation of Basic Income experiments. This involvement could take on different forms. At their most involved, DWP could contribute resources which would be saved from existing benefits not needed for the duration of an experiment; and could use their existing structures to administer and deliver the Basic Income payments. The DWP would also be able to assist with the interactions between any experimentation and the existing Universal Credit environment. A more limited involvement would see the DWP ensuring that they did not impede the work, ensuring that the benefits of participants were protected once the experiment concluded. This would minimise harm to anyone in the experiment, a key ethical concern. DWP cooperation could also be crucial if experiments were to look at reducing conditionality (should some existing behaviour-conditional benefits be retained).

81. [researchbriefings.parliament.uk](https://researchbriefings.parliament.uk/). (2016). *Universal basic income*. [online] Available at: [researchbriefings.parliament.uk/ResearchBriefing/Summary/CDP-2016-0167](https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CDP-2016-0167) [Accessed 17 April 2019]

82. [edm.parliament.uk](https://edm.parliament.uk/). (2016). *Basic Income - Early Day Motions*. [online] Available at: [edm.parliament.uk/early-day-motion/48765](https://edm.parliament.uk/early-day-motion/48765) [Accessed 17 April 2019]

Moving to a scenario of UK Government for experimentation will require a significant shift in thinking. This can be supported by demonstrating the impact that modelling and blueprinting such as in this report can demonstrate; and also by enhancing collaboration between different parts of the UK who have interest in Basic Income, in order to present a united case for progress alongside broadening public dialogue and engagement with Basic Income.

The benefits of this approach would be that it would allow for sharing across different UK contexts; and arguably a stronger chance of future legislative change. However, it faces significant challenges in terms of managing to change governmental stances, many of which are ideological in nature; danger of changes in political administration such as happened in the Ontario, Canada experiment;<sup>83</sup> and in relation to delivery time-scales, which might lose the current momentum.

There are several other outcomes, aside from experiments, that would bolster Basic Income in the nation in the short to medium term. First, future governments could introduce an initial Basic Income, such as the repurposing of the personal allowance as outlined in horizon 2. This could pave the way to a fuller scheme by providing some of the necessary infrastructure and introducing the concept into the public consciousness. Another pillar could be the establishment of a citizen's wealth fund, which could provide the capital for future policy roll-outs. This could all be helped by the organisation of a citizen's assembly to assess and reimagine the role of welfare in the nation, modelled on previous assemblies in countries such as Ireland, Canada and Iceland. All of these could be key in moving the political compass toward the implementation of a Basic Income as a new approach to social security.

### **Scenario 2 - Without agreement from the UK Government**

In addressing the intermediate period of change possible in horizon 2, it is necessary to recognise that it may not be possible to get the support of the UK Government for Basic Income experimentation. Despite some slowing down of Universal Credit roll-out, the current Government have remained strongly supportive of the policy.

Options do exist for the Scottish Government and/or local authorities to proceed with Basic Income experiments, however the fundamental issue is that it would be virtually impossible to deliver worthwhile experiments if the UK Government or its agencies decided to obstruct activity. For example, if the DWP refused to protect the benefits of participants, then the potential harm caused to them could undermine the ethics of an experiment (and indeed as outlined in this report some cross-over of benefits might be required in the horizon 2 scenario). Likewise, if a compromise around taxation could not be agreed with HMRC, then money allocated to participants could end up being lost in tax payments.

If, however direct obstruction was avoided, then the Scottish Government could choose to use the powers available to it to deliver Basic Income experiments. Exception 10 of the Scotland Act 2016 allows the Government the

83. Monsebraaten, L. (2018) Cancellation of Ontario's Basic Income project sparks global outrage. *The Star* [online] 18 Sept. Available at: [www.thestar.com/news/queenspark/2018/09/14/cancellation-of-ontarios-basic-income-project-sparks-global-outrage.html](http://www.thestar.com/news/queenspark/2018/09/14/cancellation-of-ontarios-basic-income-project-sparks-global-outrage.html)

opportunity to create new benefits in Scotland which are funded from its budget and do not stray into areas reserved to Westminster. The Scottish Government could use this to allow for Basic Income payments to be made to participants in an experiment funded from the Scottish budget, and managed separately from UK Government agencies. This would allow for the Scottish Government to deliver an experimental scheme under the auspices of Social Security Scotland, whilst allowing the UK Government to continue to focus on delivery of Universal Credit. The Scottish Government is exploring this type of approach in other policy areas such as immigration where it has proposed a Scottish visa to sit alongside UK migration policy,<sup>84</sup> meaning that a similar approach to Basic Income would be consistent with their method of working.

The 2003 Local Government in Scotland Act also provides local authorities with the power to “do anything which it considers is likely to promote or improve the wellbeing of...its area and persons within that area.”<sup>85</sup> This is a very broad area and could allow for local authorities to be the driving force for the delivery of Basic Income experiments (much as they have driven the overall interest and support for the concept in Scotland). Although consent from both UK and Scottish Governments would realistically be required for local authorities to proceed, it could offer an approach which minimises the political tensions between the national authorities. Localised experimentation could be sold as a chance for testing ideas such as Basic Income, without committing to wholesale change. As such, it could offer a useful step into horizon 2, with subsequent relevance for other parts of the UK.

It is clear that while experiments could be delivered without explicit UK Government support, they will require that there is not direct blocking from UK institutions. With that caveat, it does seem that this approach will be more likely in the immediate term than the first scenario outlined above.

In order to proceed with scenario 2, the Scottish Government will need to analyse the current legislative opportunities it possesses, and whether it would require any primary legislation to deliver. It will also need to continue dialogue with the UK Government to minimise any barriers which it might raise. The four local authorities identified as potential experimental sites in Scotland also have an opportunity to further develop their own leadership in this area, and to identify what support or capacity they might require to successfully deliver Basic Income experiments in their areas for the benefit of their residents.

### **Scenario 3 – Non-governmental delivery**

The third scenario is for a Basic Income experiment to be delivered without direct governmental involvement, funded by private or philanthropic finances. This model is currently being used for the large Basic Income experiment being undertaken in Kenya,<sup>86</sup> with both large-scale philanthropy and smaller direct crowdfunding covering the costs of the

84. Scottish Government (2018) *Scotland's population needs and migration policy: discussion paper* [online]. Available at: [www.gov.scot/publications/scotlands-population-needs-migration-policy/](http://www.gov.scot/publications/scotlands-population-needs-migration-policy/) [Accessed 17 April 2019]

85. Local Government in Scotland Act (2003), Part 3 (asp. 13). The Scottish Parliament Available at: [www.legislation.gov.uk/asp/2003/1/part/3](http://www.legislation.gov.uk/asp/2003/1/part/3)

86. GiveDirectly. (n.d.). *Basic Income | GiveDirectly*. [online] Available at: [www.givedirectly.org/basic-income](http://www.givedirectly.org/basic-income) [Accessed 17 April 2019]



experiment. A similar privately-funded project is being planned in the US.<sup>87</sup> Private funding allows for experiments to be delivered quickly and without specific political concerns (presuming appropriate finances can be accessed). It could allow for a specific experimental approach to be designed which could fit to the interests of the wider research community, and could open up funding from outside Scotland, given the global interest in what is happening. However, there are several significant challenges with any externally delivered project.

The experiment will still encounter the legislative hurdles that the other scenarios would; and, in fact, would have a harder time overcoming them if it does not have governmental buy-in. External sources of funding can be viewed with suspicion depending upon their source, which can lead to local push back against their use. There could also be significant challenges around the interaction between Basic Income payments and the existing taxation and benefits systems, depending upon how the payments were classified. This is an issue currently being dealt with in California, where projects have been delayed due to negotiations between designers and state agencies and the IRS to ensure that no participants lose their existing benefits.<sup>88</sup>

These hurdles do not preclude the possibility of an externally funded experiment in Scotland, and in many ways the complexities of the political interactions within the devolution settlement might require a degree of external energy to overcome. It is possible that a hybrid approach, combining the external resources and energy of scenario 3 with the legislative structures of scenario 2 and the cooperation of the UK bodies in scenario one, could be a possibility, helping to address the challenge of how to fund any Basic Income experiments in Scotland.

### **Next steps**

There is no doubting that the legislative and administrative context in Scotland is a complex one, reflecting the wider complexities of the devolution settlement. Solving these interactions in a way that can deliver worthwhile experiments with no detriment to participants is a challenging task and will require ongoing investigation and collaboration. However, this is not to suggest that the task is a forlorn one. There is a great deal of momentum behind the idea of a Basic Income and the political environment of Scotland, with access to social security enshrined as a right, offers a positive space for cross-party progress. The fact that the Scottish Government has eliminated harsh conditionality for recipients of disability payments is indicative of different philosophy and culture around social security. The drive around Basic Income in Scotland thus far has been largely driven by civil society, local authorities and communities, offering a space to harness the energy of Scotland's people to drive for change. And this can be supported and encouraged further in much as the

87. Winick, E. (2018) Y Combinator's \$60 million basic-income experiment will begin next year, *MIT Technology Review* [blog] 28 Aug. Available at: [www.technologyreview.com/the-download/611949/y-combinators-60-million-basic-income-experiment-will-begin-next-year/](http://www.technologyreview.com/the-download/611949/y-combinators-60-million-basic-income-experiment-will-begin-next-year/) [Accessed 17 April 2019]

88. Tiku, N. (2018) Y Combinator learns Basic Income is not so basic after all, *Wired*, [online] 27 August. Available at: [www.wired.com/story/y-combinator-learns-basic-income-is-not-so-basic-after-all/](http://www.wired.com/story/y-combinator-learns-basic-income-is-not-so-basic-after-all/)

same ways as the devolution conversation evolved over time after a failed devolution referendum in 1979.

As outlined in this report, beyond a pilot, the horizon 2 scenario is the most likely next policy step for Scotland to be able to take, as an intermediary position on route to the full potential of horizon 3. This would represent a significant change in Scottish social security policy, and a clear break from the policy of the rest of the UK, and so several changes will be required.

Firstly, the experiments can play a critical role in demonstrating some of the modelling and predictions made in this report in practice. Whilst experiments are limited in what they can ‘prove’ for Basic Income,<sup>89</sup> they allow a space for the impact of the idea to be tested in a Scottish context, and contrasted with the evidence available from similar experiments across the globe. A small-scale prototyping experiment lasting six months could be a precursor to such an experiment. Dialogue with the UK Government needs to continue in a positive manner in order to minimise barriers that they could raise to experiments, but the role of Scottish Government and Scottish local authorities is going to be crucial in moving the opportunity for experiments forward. Legislative powers do exist to allow the Scottish Government to deliver aspects of Basic Income experiments (even if the delivery of a policy is beyond them at this stage), and so the focus should be on how best to use those powers to deliver the blueprints in this report.

Part of the complementary process to the experiments must therefore also be examining what further powers Scotland would require to be able to deliver an initial Basic Income as outlined in the horizon 2 scenario. These powers could be obtained within or outside the current overarching constitutional position of Scotland; the RSA does not take a view on independence.

The approach being explored by the Government with regard to immigration offers a potential route forward, where a proposed Scottish visa would be built alongside existing UK immigration structures. A Scottish partial Basic Income could be developed alongside existing social security structures (and indeed our modelling suggests that Universal Credit would need to be continued in the interim for some horizon 2 participants), building upon them in order to meet Scottish policy priorities. This would require devolution of delivery to Social Security Scotland and of decision making on social security spend and a wider pool of taxes including personal tax allowances to the Scottish Parliament.

Movement to a new approach to social security in Scotland would also require buy-in from the wider Scottish population and civil society. As demonstrated in this report, residents and stakeholders in Fife strongly appreciated the opportunity to co-create the blueprints for Basic Income experimentation in their area, and brought a wealth of lived experience (and challenge) to enhance the work. Moving towards an initial Basic Income in Scotland should involve a national engagement programme, designed to open the conversation out to wider public involvement whether supportive or sceptical with the public and key stakeholders acting as active contributors – this cannot be a policy created behind

89. Widerquist, K. (2018) Op cit.

closed doors, but rather a new ethos for the social contract in Scotland. As we have found from previous polling work, the framing of Basic Income is crucial for public buy-in, and would help to shape a language suitable for a Scottish context. Our work in Fife has been designed to model how this process could be developed across Scotland and, indeed, the UK and beyond.

To move beyond horizon 2 into the full impact of horizon 3 would require a coherent and stepped programme of work in Scotland. We recommend that this would be best served through a Commission, comprising policy makers, subject experts and the wider public and civil society, to create a 20-year programme of social security reform which can take Scotland along the pathway laid out in this report. Such a Commission would be established alongside experiments and its work would be served by data that emerged from them. This would allow for a clear programme of work agreed across different segments of Scottish society, aiming for a goal of a full Basic Income as a foundation to a new social contract in Scotland. This Commission would have the public engagement and deliberation as described above at its core including citizen juries and assemblies.

There is no doubting that there are challenges and barriers to overcome in taking forward Scotland's interest in Basic Income and turning it into a reality, and this process must be a rigorously experimental and deliberative one. Experimentation in Scotland can offer the next step forward on this path, but should be combined with wider public and policy engagement to demonstrate that experiments are not just an end in itself. With the support for exploration from the Scottish Government,<sup>90</sup> and the global interest in the work Scotland is doing, this gives us a chance to lead the way in finding a new approach to the opportunities and challenges of the 21st century – that could involve civic Basic Income models explored here should their value in supporting economic security, health and wellbeing, and community solidarity be proven in local experiments.

In our view, a rich process of experiment, expert development, and community deliberation and co-design of a new social contract would show Scotland at the leading edge of developed world attempts to innovate social contracts capable of meeting the needs of an emerging political economy: one with too much insecurity, too little economic democracy, and new opportunities and risks emerging from a changing technology and the world of work. Basic Income could be one of the responses to provide people with the fundamental supports they will need to fully participate as this political economy follows its emerging course and is worthy of experimentation.

90. Sturgeon, N. (2018) Why Universal Basic Income is worth a serious look, *The Economist* [online] 31 May. Available at [www.economist.com/open-future/2018/05/31/why-universal-basic-income-is-worth-a-serious-look](http://www.economist.com/open-future/2018/05/31/why-universal-basic-income-is-worth-a-serious-look)

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# Conclusion

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Scotland has been showing admirable leadership in taking the conversation about Basic Income forward, from the energy of the local authorities involved and support of the Scottish Government for testing the idea; to civil society challenge, drive, and shaping of options. In this report, we have demonstrated that this interest in Scotland offers the potential for significant change for the country in how it supports and benefits its people, and a new direction that it could choose to take with social security.

Basic Income is not a panacea, a silver bullet to solve all of society's problems. However, it is a chance to rebuild the social contract, which has been undermined by an economy that is leaving many behind, and a social security system that no longer offers a safety net to all those who need it. Universal Credit will not remove the insecurity that plagues many people across society – rather it perpetuates the issue.

We recognise that even with the modelling in this report, and the evidence of other experiments across the world, moving towards a Basic Income can still seem like a significant leap and change in policy. This is where the combination of experimentation and the three horizon model offers opportunities for progress, allowing Scotland to take incremental steps along the path of change. This will require the strengthening of a coalition of interested groups, from political and civic life, who wish to explore the impact that Basic Income could have; and also a long-term vision for the type of system and social contract Scotland wishes to possess. We have recommended the creation of a Commission to create this vision, ideally through the use of citizens' assemblies or similar deliberative processes – this is not to 'punt the idea into the long grass', but rather to acknowledge that we require a collaborative environment if a different approach to economic security is going to be feasible and practical.

We therefore have an opportunity to be bold and experimental, to co-create a new system which will allow everyone to flourish. In a time of uncertainty and insecurity it would be tempting to stick to a patched-up version of the status quo, and to shy away from risk. However, as we have demonstrated, the potential benefits of a new system founded upon Basic Income are tangible. Now is the time to put these ideas to the test, and to see just how the country can change.

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# Appendix 1: Landman Economics tax-transfer model

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## The Landman Economics tax-transfer model (TTM)

The analysis in this report uses microsimulation modelling of the Scottish social security and tax system to model the costs and distributional impacts of introducing a partial or full basic income scheme. This appendix gives an overview of how microsimulation modelling works before discussing the specifics of how the Landman Economics tax-transfer model is used to produce the microsimulation results in this report.

Microsimulation models work by combining two basic elements. One is **micro-data** - usually from a household survey. The data needs to include information on the gross incomes and characteristics of survey respondent households (for example family structure, housing tenure type) and individuals within those households (for example gender and age). This information is essential for modelling payments of taxes and receipt of social security transfers (eg benefits and tax credits). The best source of micro-data for microsimulation modelling of the personal tax and transfer system in the UK is the Family Resources Survey (FRS), a repeated cross-sectional survey of around 20,000 households per year which has operated since 1993/94 and is used for the UK Government's income distribution statistics (DWP, 2019). The FRS is the data source used for all the analysis in this report.

The other element of microsimulation models is the **policy parameters** - the rules of the tax-benefit systems to be modelled. This includes the rates and thresholds of taxes and the payments and eligibility criteria for benefits, tax credits and so on. By combining this information with the data on household and individual characteristics in the micro-dataset it is possible to calculate net incomes for households (and individuals within households) under one or more tax-benefit systems. The system for which net incomes are calculated can be either the actual tax-benefit system in place in a given tax year (eg 2018/19) or a hypothetical system which has been created for the purpose of modelling a reform (for example, the introduction of a Basic Income).

Tax-benefit models in use in the UK include the models used in UK Government departments (eg HM Treasury and the Department for Work and Pensions), the Institute for Fiscal Studies' TAXBEN model, the tax-transfer model developed by Landman Economics and used by the Institute for Public Policy Research and the Resolution Foundation, and

the EUROMOD model (which models tax and benefit systems for all 28 European Union countries).

The Landman Economics tax-transfer model is the micro-simulation model of the tax-benefit system used to produce the results in this report. The model was originally developed for the Institute for Public Policy Research and is also used by the Resolution Foundation and the Joseph Rowntree Foundation. The TTM uses data from the Family Resources Survey (FRS) to analyse the impact of direct taxes, benefits, tax credits and Universal Credit.

The information in the FRS allows payments of direct taxes and receipts of benefits, tax credits and/or Universal Credit to be modelled with a reasonable degree of precision for each household in the FRS using either the current tax-benefit system, or an alternative model. For example, the user can look at what the impact of an increase in the income tax personal allowance would be. Using a ‘base’ system (often the actual current tax-benefit system) and one or more ‘reform’ systems, the model can produce the following outputs:

- Aggregate costings of each system (amount received by the Exchequer in direct taxes and National Insurance contributions, and amount paid out in benefits, tax credits and Universal Credit, and basic income for systems where it has been introduced)
- Distributional impacts of reform system compared with base system (eg change in incomes in cash terms and as a percentage of weekly incomes in the base system. The distributional effects can be broken down according to several different variables at the individual or household level, for example income decile (or quintile), disability status, age, ethnicity, household composition and so on;
- Winners and losers from a particular reform or set of reforms;
- Impact of reforms on child and adult poverty rates.

The analysis in this report uses a four-year pooled FRS dataset (combining the Scottish FRS sample for the years 2013-14, 2014-15, 2015-16 and 2016-17). The pooled dataset contains around 11,000 Scottish households, which is a sufficient sample size for robust analysis of the distributional impacts and costings of the basic income schemes modelled here.

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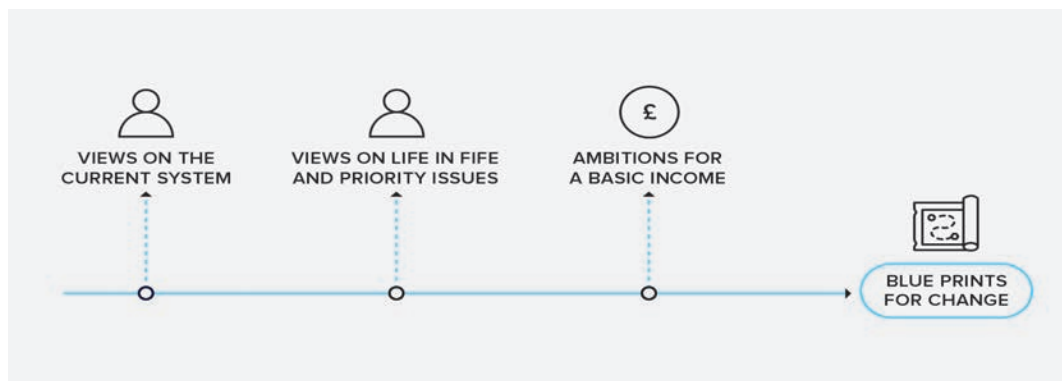
# Appendix 2: Engagement and blueprinting process

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We curated an engagement process that sought to understand the experience of social security and the world of work in Fife, both for those it is intended to help (citizens and their families) and for those that work within the system, whether directly (eg council staff) or indirectly (eg those in the voluntary sector). In other words, we wanted to ‘see the system’ through the eyes of those it was intended to benefit as well as those working within it, as illustrated below:

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**Fig. 1: Process**



We did this through two time horizons: understanding the current reality and identifying future ambitions for change. To do this, we drew on the three horizons framework, developed by the International Futures Forum, as an intuitive way of thinking about how change happens over time. We engaged stakeholders and citizens in a series of workshops that first looked at horizon 1 and then at horizon 3.

## **Citizen engagement**

The purpose of the citizen’s engagement group was to ensure that the views and ideas of local citizens were central to this work. It met in two separate sessions, and helped us see the system through the eyes of those on the receiving end of it as well as identify the opportunities that a basic income might open up for those receiving it. We deliberately avoided introducing the concept of Basic Income until the second session held some days after the first session. We outlined a notional model of Basic

Income in order to enable participants to engage practically. The sessions involved five short questions:

### **Session one: Thinking of you, your family, your friends, your community:**

1. What words would you use to describe living in Fife?
  - What so you like and dislike?
  - What are the biggest challenges and opportunities?
2. How are people managing financially?
  - What are the key issues around work, income, financial security, debt etc?
  - What are the main stresses and challenges?
3. What do you think about the current welfare / benefits system?
  - What works, what doesn't?
  - What are the challenges people face?

### **Session two: Exploring Basic Income**

We presented a simple model of basic income and asked how it might make a positive or negative difference, if at all? The model we presented was as follows:

- Basic Income is £100 per person per week (including for children)
- Pensioners would receive £170 per week (same as the current basic state pension for an individual) but everyone over the state pension age would receive it
- There would be no conditions for receiving the payment (subject to residency requirements as currently) but there would be supports available, eg to retrain or help to find work
- Housing benefit, disability payments and childcare support is received in addition on the basis of need
- Companies (apart from small companies) and higher earners (eg earning over £40,000pa) would have to pay 5% more tax

We wanted to hear what people's ambitions were and the extent to which a basic income might help them make changes to achieve these ambitions:

4. What changes might you like to make?
  - If I received a basic income then I would... (action) So that... (impact)



5. What support might help?

- Eg what might you want from the community, friends and neighbours, public sector organisations, private enterprise, employers, charities, etc.

### **Stakeholder engagement**

The purpose of the stakeholder group was to engage the relevant organisations within the wider welfare system in Fife and get an accurate picture of the current system as well as insights into the impact a basic income might have. It met in two separate workshop sessions, and helped us understand the system from the perspective of those working within it and identify the opportunities for change against each of the priorities.

Together, the content and insights from these sessions were brought together to inform the 'blueprinting' process through which we have developed the core elements of a Basic Income experiment: the hypothesis the experiment is designed to test, the desired outcomes, the critical success factors for each outcome, the opportunities and barriers, the critical activities before, during and after an experiment, and the potential measures to track progress towards the outcomes. These are shown at Figures 4 (see p33), 9 and 10 (below).

In addition, our work with stakeholders helped map the current system, identify how a basic income experiment might impact people positively and negatively in particular circumstances, start a dialogue with stakeholders about what they might do to support a basic income experiment, identify possible unintended consequences, agree some core design principles and embed this in the existing policy and delivery framework in Fife.

The overall process was overseen by a steering group drawn from Fife council to ensure local knowledge, practice and legitimacy was brought to the process.

# Appendix 3: Blueprints for change

Fig 4: Work and economic security: a blueprint for change (see p27)



Fig. 7: A blueprint for health and wellbeing



Fig. 8: A blueprint for community



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