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Basic Income – Why and How in Difficult Economic Times: Financing a BI in Ireland

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> A basic income is an income that is unconditionally granted to every person on an individual basis, without any means test or work requirement. In a basic-income system every person receives a weekly tax-free payment from the Exchequer while all other personal income is taxed, usually at a single rate. For a person who is unemployed, the basic-income payment would replace income from social welfare. For a person who is employed, the basic-income payment would replace tax credits in the income-tax system.

Overview

In this paper we look at the economic and social crisis that has characterised much of the EU since 2008 and look specifically at Ireland in this context. We go on to argue for the introduction of a basic income system as a key component of any strategy aimed at delivering a just, comprehensive, integrated and sustainable future. We then present details on what a full basic income system in Ireland would cost and how it could be financed.

Economic and social crisis: the European Union

The European Union today is experiencing an economic crisis. To address this situation the European Central bank (ECB), the European Commission (EC) and the International Monetary Fund (IMF), supported by some major EU countries such as Germany have insisted on policies focused on socialising bank debt, austerity and structural reform. This approach has been underpinned by a dominant narrative which states that markets are the number one priority and restoring economic stability and growth should take precedence over social and environmental issues. In countries such as Ireland this approach has seen an upward redistribution of resources. Poor people have seen their resources reduced to pay for the debts that resulted from reckless lending and gambling by financial institutions and bondholders. This approach has also seen the emergence of a form of ‘moral hazard’ where financial institutions and banks in Europe and beyond have been insulated from the risks they took whilst their debts have been socialised and tax-payers across Europe are paying for the negative consequences of these risks. After the crash of 2008 it became clear that much of the world’s financial system was in a precarious state. Banks, financial institutions and others had taken huge risks in their investing. In many cases these investments were reckless and there was little, if any, possibility of their being recouped. In some countries, such as Ireland, this reality was acknowledged. In other countries, such as Germany and France, there was a total denial of their banks being in any way either at risk or at fault. Institutions such as the European Central Bank were adamant that no bank should be allowed to default. The alternative, they believed, would be serious ‘contagion’ and the possible failure of other banks. Countries such as Ireland were pressed by some international institutions to ‘socialise’ their debt by agreeing that government would take full responsibility to repay all the debts accumulated by private banks. In practice this would move responsibility for repaying these debts from the banks to the State.

Those who had gambled their money and lost would, as a result, be repaid in full. The repayments would be funded by increased taxes and cuts in public expenditure. In practice, this would mean a programme of austerity would have to be imposed. Poor and vulnerable people and ordinary taxpayers would pay for debts they had no hand, act or part in accumulating. There is something profoundly unjust, unfair and immoral about this approach. Yet it was insisted upon, particularly by the ECB and German and French political leaders.

The socialising of bank debt and the imposition of ‘austerity measures’ were followed at EU level by an emphasis on ‘structural reform’. This involved the introduction of measures to ensure that national budgets were balanced and economic growth promoted. Before the crisis of recent years economies were growing and credit was readily available. The middle classes were able to share the benefits of economic growth by borrowing heavily. At the same time poor people could be protected through social spending.

Now, however, credit has become extremely difficult to obtain and there is growing pressure on social security and social services’ budgets. To achieve the desired ‘structural reform’ a range of proposals was made, including raising of the retirement age, reducing the size of the public sector, privatisation of services and reductions in welfare rates, salaries and other entitlements. A recent ‘Shadow Report’ on the Europe 2020 Strategy, produced by Caritas Europa, which drew on the experiences of 16 EU countries, concluded that austerity measures such as these, which are being pursued in many countries, “will result in the erosion of social services and will lead to the further exclusion of people who already find themselves on the margins of society. This is in direct contradiction to the inclusive growth focus of the Europe 2020 Strategy.” (Caritas Europa 2011)

To support this new approach, on January 30, 2012 the European Council finalised a new 'Treaty on Stability, Coordination and Governance in the Economic and Monetary Union'. Only the UK and Hungary indicated their unwillingness to sign this treaty. Introducing strict new limits on public debt and budget deficits, it heralds a fundamental change in the way all participating governments will organise their national budgets. It appears there will be intrusive external oversight by the European Commission in the internal affairs of each country, which, in turn, will have far less discretion over fiscal policy than heretofore. There will also be heavy penalties for any breaches in the terms of the treaty. Each country will have a permanent and binding "debt-brake" and an automatic corrective mechanism to reverse any slippage. Countries that do not ratify this treaty will have no further right to aid from the permanent bailout fund of the European Stability Mechanism. This treaty, therefore, will severely restrict all elected governments' room for manoeuvre. The implication is that the rest of Europe is being required to re-model itself according to the dictates of the European Commission and the European Central Bank. Yet the justification for such a move is far from proven, even in economic terms.

This treaty is seen as a critical step in the process of socialising debt, prioritising austerity and securing structural reform in the EU. Of great significance is that this treaty would have made no difference to Ireland in the decade prior to the 2008 crash. It would not have forced either the Government or the banks to do anything differently. So, while presented as a solution to Europe's present predicaments, it fails to address the very causes of these predicaments. It also ignores the social context, containing no reference to social policy, poverty, inequality or social inclusion. Its development has also ignored much of the carefully-constructed European democratic architecture which was put in place to maintain balance between competing countries and interests in the EU. The structural reform approach overlooks the fact that globalisation in its present form contributes to inequality in the 'developed' world by creating a global labour pool that holds down wages and boosts corporate profits at the same time. This is a recipe for increasing inequality and widening gaps between the poor and the better off in society. The current approach of socialising debt, austerity budgets and structural reform will copper-fasten growing inequality and deepening division. It is also questionable as to whether it can rescue capitalism's problems. Much more radical solutions are required if the world's current broken economic development model is to be replaced by one which produces a fairer and more just solution.

These recent experiences give rise to a number of important questions:

- What is needed to ensure effective and efficient regulation at both national and international level of the world's financial systems and how can the current situation of moral hazard be eliminated?
- How is this fundamental flaw in capitalism to be addressed?
- What needs to be done to ensure that economic development and social development are given equal priority in countries across the world?
- How is the environment to be protected and sustainability secured?

The European Union in 2012 is facing an economic, political and social crisis of alarming and growing proportions.

- 16.4 per cent of the EU's population is officially at risk of poverty[1]
- 10.4 per cent of the EU-27's labour force is unemployed (ranging from 4.5% to 24.8% in different countries and categories)[2]
- 5.427 million young people (under 25) in the EU-27 are unemployed[3]

There is unlikely to be much improvement in this situation in the short to medium term. Governments across the European Union are facing increasing pressure on balancing their budgets. Many have urged substantial cuts in welfare provision and in social expenditure generally. The primary focus has been on moving the economy to a sustainable path but this has been done for the most part without reference to the European Social Model and its commitments on delivering services for people. Austerity is the order of the day and the pathways being followed by Governments are generally regressive in nature. While all citizens have been targeted to absorb part of the austerity there has been a general failure to recognise that those who are better off are in a far better situation to absorb these hits while those who are vulnerable have been forced to cut back far more than they can absorb.

Economic and social crisis: Ireland

Ireland in 2012 is facing a similar crisis. Because Ireland is a small open economy, international recession is bound to have implications for this country's economic growth, jobs and trade. Consequently, the severity of the recent international recession would of itself have

[1] http://ec.europa.eu/europe2020/pdf/themes/25_poverty_and_social_inclusion.pdf
[2] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics (Figure relates to June 2012)
[3] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics#Youth_unemployment_trends (Figure relates to June 2012)

had serious implications for Ireland and ensured that this country experienced some degree of recession. However, the recession experienced since 2008 has been far more severe and protracted than it might have been otherwise due to an array of national policies and decisions over recent decades.

The Irish Government's approach to fiscal adjustment (i.e. emphasising cuts rather than broadening the tax base) is not working[4]. A series of decisions have been made that have seriously damaged Ireland's most vulnerable people, that place a disproportionate burden on their shoulders and seriously damage the social infrastructure on which they depend.

- Economic growth is sluggish at best with projections for the coming years consistently being revised downwards;
- 14.8 per cent of the labour force is unemployed (CSO 2012b);
- 187,400 people are long-term unemployed (CSO 2012b);
- Employment fell in the first quarter of 2012 (CSO 2012b);
- In 2010 the poverty line fell by over 10% from €12,064 to €10,831 but the numbers in poverty increased (CSO 2012 a);
- Over 200,000 children in Ireland are living in poverty (CSO 2012 a);
- Almost 120,000 people with a job in Ireland are at risk of poverty (CSO 2012 a);
- Income inequality has increased with the disposable income of those in the top 20 per cent being 5.5 times higher than that of the bottom 20 per cent (CSO 2012 a).

Ireland faces a number of key challenges and in order to address them an alternative narrative and vision are required. The challenges that Ireland faces are economic, banking, fiscal, social, ownership of debt, income distribution and employment. This paper will now address these issues briefly before moving on to discuss an alternative narrative and the role that basic income can play in shaping Ireland's future.

Economic

The speed and severity of Ireland's economic crisis from 2007 was exacerbated by the fact that in the decade to 2008 the state had become heavily dependent on tax revenue derived from construction related activities and had failed to develop a broad and sustainable tax base. This source of revenue collapsed once the housing bubble burst at the onset of the

[4] For a much more detailed analysis of this issue cf Healy, Mallon et al, 2012

crisis[5]. Irish exports continue to be impacted by the scale of the international recession and since 2008 the state has been borrowing to pay its day-to-day (current account) costs. By November 2010 the ECB was insisting, against the Irish Government's wishes, that Ireland go into a bailout arrangement with the troika (EC/ECB/IMF). A *Memorandum of Understanding* was signed with the IMF, EU and the ECB to secure €85 billion in funding over the period 2010-2013, which was extended to 2015 by the Government elected in 2011. Of this amount €17.5bn was paid from Ireland's National Pension Reserve Fund which was a Sovereign Fund to pay for pensions post-2035. In return for this financing the Irish government is following a severe austerity programme in order to reduce the budget deficit.

This programme of austerity has led to €16.6 billion being taken out of the Irish economy through expenditure cuts since 2008, with a further €5.5 billion to be taken out of the economy by 2015 (Healy, Mallon et al, 2012:24). Such a dramatic reduction in expenditure has led to an economy that has been run down, continued declining domestic demand, persistent and growing high levels of unemployment, long-term unemployment at crisis levels, youth unemployment and emigration on the rise, an increase in the number of people in poverty and sluggish economic growth.

Banking

Ireland also faces a banking crisis in which the taxpayer is taking responsibility for rescuing all the major banks and financial institutions from the consequences of the dishonesty and incompetence of individuals and institutions which were in charge of running and regulating our financial system. As NESC has pointed out (2009: x), the policy response to the banking crisis must also address:

- The need to ensure that recent policy measures provide protection to the increasing number of households with mortgage arrears;
- The need to ensure that recent government action prompts a renewed flow of credit to businesses in Ireland;
- The need to convince Irish society as a whole, and particularly groups making visible sacrifices, that those who led Irish financial institutions into their current reliance on the state, and who were major beneficiaries of the boom, are being held accountable and are bearing their share of the adjustment burden;

[5] For a more detailed analysis see Healy, Mallon et al, 2012: 18-28

- The need to persuade our EU partners, other international institutions and participants in the global financial market that a new regulatory regime and governance culture is being created in Ireland.

The authors propose a fifth policy response to the four identified by NESC:

- The need to ensure those international institutions (e.g. foreign banks and financial institutions, bond holders etc.) who contributed to causing the problems in Ireland take their share of the responsibility and contribute to its solution.

Thus far the policy response to the banking crisis has been slow, disappointing and unfair.

- International institutions have not taken any responsibility for their role in creating this crisis, and the moral hazard issue, where financial institutions which gambled with money are repaid in full by tax-payers, has not been addressed.
- The Personal Insolvency Bill to deal with bankruptcy and mortgage arrears was published in June 2012 but questions remain over the effectiveness of this piece of legislation to deal with the scale of the problem.
- Access to credit is still a problem for small and medium enterprises, so much so that the Government has now initiated the Credit Guarantee Bill 2012[6].

Fiscal

Ireland has a fiscal crisis because the Irish authorities are spending far more than they are collecting in taxes. To bring Ireland back into line with our EU/IMF commitments, major budgetary adjustments have been required and will be required over the next few years. However, as NESC has noted, these fiscal adjustments need to be considered and implemented not just with regard to how they address the gap between taxes and spending but also with regard to the impact these adjustments may have on the other dimensions of Ireland's challenges: the economic crisis, the social crisis and the country's reputation (2009: x). Ireland has implemented a policy of favouring expenditure cuts to tax increases at a ratio of 2:1. The impact of the fiscal crisis in Ireland is clear: sustained increases in unemployment and a lack of confidence both domestically and internationally in the Irish economy's recovery. Pursuing a policy of fiscal adjustment by favouring expenditure cuts over tax increases has served to further weaken domestic demand and run down the economy.

[6] For further details see http://www.djei.ie/press/2012/20120411.htm

It also means that government is slow to address the critical issue of broadening Ireland's tax base in order to make it sustainable for the future.

Social

As a result of the crisis and ensuing austerity policies social services and social infrastructure are being eroded, unemployment has dramatically increased, incomes are falling, debt levels are rising and the prospect of a sustained period of high long-term unemployment levels now seems unavoidable. Policy makers need to be keenly aware that their response to the crisis should not further undermine the vulnerable in Irish society and the social services and infrastructure on which they depend. Cuts in both national and local social services and support initiatives are being made at a particularly difficult time, just when the demand for these services is rising.

Ownership of debt

Ireland's debt burden is too large to allow it return to the bond market on a sustainable basis in the near future. Ireland is implementing the conditions of the Bailout Agreement and hitting its targets on the fiscal front. Dramatic Budget cuts and tax increases are being delivered on schedule. Borrowing targets have been reached. However Ireland's economic growth has been sluggish, GDP and GNP both declined in the first quarter of 2012. Most economic forecasts for 2012 predict little, if any, growth – the most optimistic setting it at 0.7 per cent of GDP (Department of Finance, 2012:5-6). It is clear that it will be almost impossible for Ireland to produce the growth needed to recover from the current crisis without a significant reduction in the cost of servicing its sovereign debt arising from the Bailout Agreement with the 'troika'.

But part of Ireland's current debt is not our debt. It was caused, in part at least, by the reckless gambling of German and French banks and financial institutions among others. In the decade before the crash low interest rates were being maintained because that was deemed appropriate for the German economy; but such low rates were the direct opposite of what Ireland needed. Under major pressure from the European Central Bank (ECB) not to allow any bank to fail, the Irish Government provided a bank guarantee in September 2008 and that has resulted in a huge burden of private bank debt being assumed by the state. Ireland was told that were it to default, even marginally, on this debt that would have devastating consequences for Europe's entire banking system. To protect the banks of

Europe the citizens of Ireland have to bear an enormous debt burden. This is unjust and indefensible. This is a European problem and its solution should be shared among European nations.

Income distribution

The most recent study on poverty produced by the CSO (CSO, 2012b) shows there was an increase in poverty and in income inequality between 2009 and 2010. It found that 15.8 per cent of the population are at risk of poverty – up from 14.1 per cent the previous year. The disposable income of the highest income quintile was 5.5 times the income of those in the lowest income quintile – up from 4.3 times the year earlier. This reverses the downward trends evident since 2005. The SILC survey also shows that Ireland’s income inequality has grown, and that between 2009 and 2010 the bottom nine deciles saw their household disposable income fall while the top decile rose.

An assessment of a thirty year period from 1980 to 2010 (Social Justice Ireland, 2012) highlights the lack of progress in addressing inequality in Ireland’s income distribution system. In 2010 the top 10 per cent of the population received almost 14 times more disposable income than the poorest ten per cent. In 1980 the top income decile received 8 times more disposable income than the poorest income decile (Social Justice Ireland, 2012).

A special CSO Quarterly National Household Survey module on the impacts of the recession on households was published in February 2012 and showed that 30 per cent of households headed by a person who is unemployed had borrowed money from family or friends to pay for basic goods and services. In addition, half of such households had missed paying household bills and more than one quarter had missed loan repayments. Two thirds of households headed by a person with a job and two thirds of those headed by an unemployed person had reduced the amount they saved. However, households headed by an unemployed person were far more likely to have spent some or all of their savings. Almost 64 per cent of these households had spent savings to pay for basic goods and services in the two years prior to the survey, compared with 46 per cent of households headed by a person who was employed.

It is clear that the poorest and most vulnerable in Ireland have seen income inequality increase over the past thirty years. A new system is required to put a ‘social floor’ under people and to ensure that all member of society have sufficient income to live life with dignity and are included in the benefits of sustainable economic development. A basic income system would provide such a ‘social floor’.

Employment

The ramifications for Ireland’s citizens of the recent economic turmoil have been severe. Most notably, one of the great achievements of the last two decades has been reversed in the space of just a few years. Unemployment has returned as a widespread phenomenon. In late 2006, 90,300 people were recorded as unemployed by the CSO’s quarterly national household survey (QNHS). This figure represented 4.2 per cent of the labour force. Six years later, the number of people unemployed had more than tripled to 309,000, equal to approximately 14.8 per cent of the labour force (CSO 2012b). In a relatively short period Ireland returned to levels of unemployment not experienced since the mid-1980s. Behind each of these figures are people and families — the society-wide impact of these increases cannot be over-estimated.

The scale of this unemployment crisis, and the simultaneous collapse in employment opportunities, has resulted in many people becoming stranded in unemployment. Consequently long-term unemployment, defined as those unemployed for more than one year, has rapidly increased. By 2012, 187,400 people were recorded as long-term unemployed, a rate equal to 8.9 per cent of the entire labour force, and the figure looks set to climb towards 200,000 during 2012. It is of considerable concern that a large proportion of the newly long-term unemployed possess skills for which there is likely to be limited demand over the next few years. In particular, large numbers of males who formerly worked in the construction sector have joined this group and they will require significant assistance and retraining before many of them can return to employment.

Another of the social ghosts of the 1980s and 1990s has also returned – emigration. The preliminary estimates from the CSO Population and Migration Estimates, April 2011 suggest that net migration is running at over 34,000 a year in 2010 and 2011. (CSO, 2011: 2) Preliminary estimates suggest total emigration in 2011 was over 76,000 of which more than 40,000 were Irish - a sharp increase in Irish emigrants from 27,700 to 40,200 over the 12 months to April 2011. The ESRI in its Quarterly Economic Commentary states that this level of emigration is expected to reduce the total numbers unemployed. (ESRI: 2012: 28) As Ireland’s employment is not expected to grow until domestic demand increases substantially and the international economy recovers, it is expected that emigration will remain at these high levels with a large outflow of young and skilled Irish-born people for a number of years to come.

Basic Income – a new approach

Across the world today there is growing poverty and precariousness; increasing public and private over-indebtedness; increasing environmental risks and increasing mistrust of institutions. There is also a growing recognition of the limits of the welfare state, the limits to growth and the limits of the environment. New radical approaches are required if these challenges are to be met. One such approach is basic income. A basic income requires a sense of solidarity and a commitment to the common good. The authors understand the common good as consisting of having the social systems, institutions and environments on which we all depend, work in a manner that benefits all people simultaneously and in solidarity. This understanding of the common good requires the recognition of rights and responsibilities within society, empathy with others and the values of citizenship (NESC, 2009). It also requires the recognition that: (i) the goods and resources of our planet are for the use of all people, not just those in better off countries and (ii) these goods and resources are also for the use of generations to come, and we, as the present generation have a responsibility to ensure that we care for, enhance where possible, and pass on these goods and resources to future generations.

As we move towards an ever more globalised future, a basic income is one of the best tools available to us to ensure that all people are enabled to engage in productive activity and that the dividends and profits generated by the planet's resources are distributed equitably to all people. A basic income differs fundamentally from the welfare state model as it is paid without conditionality, and therefore gives people the freedom to engage in productive activity without the conditions of meeting certain criteria as outlined by the welfare provider.

Basic Income and Ireland

Discussion on basic income in Ireland primarily focusses on a number of issues: its affordability, how a basic income system might be implemented and its impact on employment and work. Although Ireland is in a very difficult economic situation at present, it is not a poor country. GDP per capita in Ireland in 2011 was €35,455 (CSO, 2012c) and we believe that Ireland has the capacity to deliver a society where, among other things, every man, woman and child has sufficient income to live life with dignity. The implementation of a basic income in Ireland would require the reform and integration of the present tax and social welfare systems. This basic income is a form of minimum income guarantee that avoids many of the negative side effects inherent in social welfare payments. A basic income differs from other forms of income support in that:

- It is paid to individuals rather than households;
- It is paid irrespective of any income from other sources;
- It is paid without income or work conditions; and
- It is always tax free.

In a basic income system every person receives a weekly tax free payment from the Exchequer while all other personal income is taxed, usually at a single rate. For a person who is unemployed the basic income payment would replace all income from social welfare. For a person who is employed the basic income payment would replace tax credits in the income tax system.

As outlined in detail earlier, Ireland is in a very difficult situation at present. It faces decades of challenging economic pressures and stringent fiscal parameters as it seeks to repay debts caused by banks and financial institutions but which are now being repaid to a great degree by the Irish tax-payer. Alongside these challenges Ireland also has an on-going poverty and income distribution problem. The current system in Ireland linked to paid employment has failed many and will continue to fail. Currently unemployment in Ireland is 14.8% and is expected to remain over 10% until at least 2017 (IMF, 2012:14). The claim is often made that a job is the best poverty fighter and consequently, all priority must be given to getting everyone a paid job. In Ireland job creation and full employment are constantly held up as the solution to Ireland's poverty problem. This ignores the sheer scale of the 'working poor' problem in Ireland, where 120,000 in employment are at risk of poverty and 29 per cent of households in poverty are headed by a person with a paid job. The 'working poor' and unemployment statistics show that jobs alone will not eliminate poverty in Ireland. There is a real danger that the 'working poor' and the unemployed and all those living in poverty who are excluded from the benefits of the modern economy will be ignored. Government policy is currently focussed only on fiscal and economic issues, with the well-being of citizens and their social, economic and cultural rights coming a very poor second. An appropriate, secure income distribution system is needed to ensure that all people are included in the benefits of a sustainable Ireland.

Some people oppose basic income in Ireland (as happens in other places as well) because they are convinced that it would lead to a weakening of government commitment to full employment. There has been a marked tension between the objective of achieving full employment and the objective of eliminating poverty. If welfare rates are raised, to address social exclusion, they are often presented as being a threat to jobs. If the 'working poor' issue and the exploitation of low-paid workers are highlighted, the response often focuses on the threat to jobs any change might imply. A basic income addresses both of these issues simultaneously in a positive manner. It can have a major impact on reducing poverty while also supporting the aim of creating full employment. It can be viewed as an employment subsidy paid to the employee rather than the employer. It also eliminates unemployment traps. It can even contribute to job sharing as some people will find it easier to job-share once they have a guaranteed, unconditional floor to their income. So basic income would help the development of a much more flexible labour market more appropriate to the realities of the 21st century. It would in effect simultaneously address both the poverty and the unemployment challenges which face so many countries today.

A basic income system would also address two other issues that agitate people in different situations. On the one hand it would eliminate the demoralisation experienced by many people who are unemployed when they are forced to seek jobs even though they know well that jobs don't exist on anything like the scale required to reduce unemployment substantially. On the other hand it would also eliminate the annoyance of many who feel they are being forced to contribute to a welfare system that provides them with nothing in return.

There are other arguments in favour of a basic income system in Ireland that we do not discuss in this paper. However there is one reflection caused by the economic upheaval of recent years that we believe is very important. As any country in the EU tries to develop and implement its ideal of a just society it faces very serious challenges. Economic 'orthodoxy' and international institutions may be insisting that the country must give priority to getting its economy in order. This can lead very quickly to claims that the welfare system is unsustainable. But reductions in welfare are likely to lead to growing poverty and exclusion. A basic income would integrate the current welfare system with the tax system and produce a much more integrated response to the challenges being addressed. It could also ensure that economic development was not being promoted at the expense of those who are poor or excluded.

The welfare state and the European Social Model were developed on the understanding of full-time jobs being available for life paying a family wage in a world of near full employment. Today we are in a world where jobs are characterised by flexibility, risk and precariousness for a large and growing proportion of the labour force. A basic income system ensures that looking for a paid job and earning an income, or increasing one's income while in employment is always worth pursuing, because for every euro earned the person will retain a large part. It provides income security for those on short-term or flexible contracts (sometimes called the 'precariat') and it removes poverty traps and unemployment traps in the present system in Ireland.

A basic income also removes the conditionality associated with the 'welfare state' model and the current social welfare system in Ireland. The present system does not afford people the freedom to engage in productive activity. In fact it does the opposite, and the lack of freedom and forced idleness which are consequences of the conditionality of the system have an extremely destructive impact on people's lives.

Furthermore, women and men would receive equal payments in a basic income system. Consequently the basic income system promotes gender equality because it treats every person equally.

It is a system that is altogether more guaranteed, rewarding, simple and transparent than the present tax and welfare systems. It is far more employment friendly than the present system. It also respects other forms of work besides paid employment. This is crucial in a world where these need to be recognised and respected. It is also very important in a world where paid employment cannot be permanently guaranteed for everyone seeking it. There is growing pressure and need in Irish society to ensure recognition and monetary reward for such work. Basic income is a transparent, efficient and affordable mechanism for ensuring such recognition and reward. A basic income enables people to engage in productive activity, this freedom is lacking in the current welfare system due to the conditionality that is inherent within it.

Basic income can also lift people out of poverty and the dreadful dependency mode of survival. In doing this, it also restores self-esteem and broadens horizons. Poor people, however, are not the only ones who should welcome a basic income system. Employers, for example, should welcome it because its introduction would mean they would not be in competition with the social welfare system. Since employees would not lose their basic income when taking a job, there would always be an incentive to take up employment.

Ten reasons to introduce basic income

- It is work and employment friendly.
- It eliminates poverty traps and unemployment traps.
- It promotes equity and ensures that everyone receives at least the poverty level of income.
- It spreads the burden of taxation more equitably.
- It treats men and women equally.
- It is simple and transparent.
- It is efficient in labour-market terms.
- It rewards types of work in the social economy that the market economy often ignores, e.g. home duties, caring, etc.
- It facilitates further education and training in the labour force.
- It faces up to the changes in the global economy.

Financing a Basic Income for Ireland

Much has been written about financing a full or partial basic income on a global, European, national or regional level by a wide range of authors. This paper however will focus solely on financing a full basic income for Ireland. There are a number of different options for financing a basic income, with the scale and level of the basic income being proposed having major implications for the financing options deemed most viable or appropriate. The level of income to be paid, and to whom it is paid, and whether it is a full or partial basic income all have a significant impact on how it will be financed.

It is important to point out that the authors are not discussing adequacy of a basic income in this paper, nor are we in any way implying that the rates used in our calculations are a sufficient basic income. We merely use these figures to demonstrate how a basic income system in Ireland could be introduced within the current tax and social welfare frameworks.

There are a number of financing options to be considered when designing and implementing a basic income system.

- **Changes to current tax and welfare arrangements:**
  This would involve integrating the current tax and social welfare systems and terminating income tax credits and most social welfare payments.
- **New tax from a new source or additional tax from an old source:**
  An example of a new tax would be the implementation of a Financial Transaction Tax[7] (FTT) for the purpose of funding a basic income. The level of FTT being levied would depend on the level of basic income being proposed. An example of using an old source but increasing the rate would be a consumption tax, i.e. increased VAT.
- **User charges on non-renewable resources:**
  A carbon tax is a means of setting a cost for carbon emissions from fuel. Using a carbon tax to fund a basic income system would essentially put a price on the use or accumulation of common goods and resources and ensure the benefits of such use or accumulation are distributed to all.
- **Tax on waste production:**
  A tax on waste production is a variation on the 'polluter pays' principle and is another form of ensuring that the benefits of the commons are redistributed to all;
- **Buoyancy:**
  Many argue that a basic income would produce additional dynamism within the economy and therefore produce new revenue for the exchequer.
- **New currency:**
  Some have argued that a basic income be delivered through a new currency. The authors of this paper believe that a basic income system can be introduced within the existing currency system.

Savings from reducing social service bureaucracy:
If the changes to the current tax and welfare arrangements (i.e. integrating the tax and welfare systems) were implemented it would result in far less bureaucracy and significant savings to Government which could be used to fund part of the basic income system.

Ireland – Financing Basic Income: the story to date[8]

[7] For further information on the development of a Financial Transaction Tax in Europe see http://ec.europa.eu/taxation_customs/taxation/other_taxes/financial_sector/index_en.htm
[8] For a more detailed analysis of the history of basic income in Ireland see '*Ireland and the Prospects for Basic Income Reform'* in Murray and Pateman (eds), 2012.

Basic income has been examined in Ireland since the 1970s in various reports and studies and it is now coming back onto the policy agenda. In 1977, Ireland's National Economic and Social Council (NESC) published a report on how personal income tax and welfare transfers might be integrated (Dowling, 1977). The report studied three options, one of which was basic income. Its analysis of basic income had little impact, however, and the report's conclusions on the possibility of tax reform led to the establishment of Commissions to review tax and welfare policy.

In the 1980s, there were two major reports produced by the Commission on Taxation (1982) and the Commission on Social Welfare (1986). The first analysed taxation and the second analysed the social welfare system. Both reports looked at basic income but rejected the proposal without conducting any serious analysis[9].

In 1994 Tim Callan and colleagues from Ireland's Economic and Social Research Institute (ESRI) produced a study on basic income. They found that a tax rate in excess of 65% would be required on all personal income if the basic income system being proposed was to be financed. The report concluded that such a high tax rate would be a disincentive to people taking up paid employment and that the income distribution effect of the proposal did not benefit many low-income households thus making a basic income unviable in Ireland. In the years that followed there were a number of official reports by government departments, agencies and working groups that endorsed Callan's conclusion.

A paper by Ward (1994) outlined a fully costed approach that would retain the main benefits of basic income but that would reduce the cost so that the tax rate could be kept below 50%. This study looked very closely at Ireland's budgetary situation and presented detailed figures which showed what could be done to reduce public expenditure.

Ward's analysis was developed and expanded in a study by Clark and Healy (1997) commissioned by *CORI Justice*. The study found that the plan for a basic income outlined by Ward had underestimated the income that would be available for the funding of a basic income. In fact, a full basic income could be implemented in Ireland within three years.

Following on from this report government became directly involved in discussion and study of basic income. In the negotiations that produced the national agreement *Partnership 2000* (1996), *CORI Justice* succeeded in getting agreement from the other social partners to include

[9] For further details see' *Ireland: Pathways to a Basic Income in Ireland'* in Caputo (ed.), 2012.

a section on basic income with a commitment to establish a working group to study the concept of basic income. The working group that was established included one of the authors (Seán Healy). Three studies were completed and published (Clark, 1999; Callan et al. 2000a, 2000b). These studies found that a basic income system would have a substantially more positive impact on the distribution of income in Ireland compared with the present tax and welfare systems.

According to the studies, this impact could be achieved without any additional resources beyond those available to 'conventional options'.

Following on from these studies government moved to prepare a green paper on basic income. This green paper was published in 2002 and outlined options for consideration on basic income. The green paper's most welcome conclusion on basic income was that it would have a far more positive impact on reducing poverty than the present tax and welfare systems. The green paper also concluded that a basic income would have a substantial positive impact on the distribution of income in Ireland (repetition: see previous sentence).

Despite the publication of the government's green paper, making progress at a political level on basic income was exceedingly slow and difficult. Consequently in more recent years many advocates of basic income in Ireland have suggested a policy that initially sees it being developed through making tax credits refundable for those in paid employment. Such an innovation would see everyone in Ireland having an entitlement to a payment of some sort (e.g. child benefit for all children, state pensions for older people, social welfare payments and/or refundable tax credits for all people in between). *Social Justice Ireland* commissioned a fully costed and peer reviewed study on making tax credits refundable (Social Justice Ireland, 2010). The results of this study were published in 2010 in a report entitled: *Building a Fairer Tax System: The Working Poor and the cost of Refundable Tax Credits.* This study found that making tax credits refundable would make the tax system fairer and it would come close to securing a basic income structure, that is, practically everyone would be in receipt of a basic payment of some sort (i.e. a welfare payment, a tax credit or a state pension).

Ireland today – what can be done?

There are different approaches and methods available to introduce a basic income system in Ireland. In general these relate to the level at which basic income payments should be set and the implementation pathway if a basic income is to be put into place. The former is our major concern for the remainder of this paper. (Below we also reference where the latter issue has been addressed comprehensively by Clark and Healy.)

There are a number of different levels that a basic income payment can be set at; for the purposes of this paper we will examine three of them.

- Social welfare rate:
  One option available when setting the basic income payment is to set it at the current social welfare rate paid to a single unemployed adult and adjust the payments for children and older people from this chosen base rate. This allows an ease of calculation for the cost of implementing the basic income system, however there is a problem with this method if the social welfare payment is below the poverty line[10]. The social welfare rates for older people in Ireland are above the poverty line at present while the rates for other adults are about 10% below the poverty line.
- Poverty line:
  The poverty line in Ireland is set at 60% of median income. In 2012 the poverty line for a single person is €207.94 per week or €10,842 per year. If the basic income payment is set at the poverty line care must be taken to adjust it to any changes in the poverty line, this requires a basic income system which is flexible, simple, transparent and easily administered.
- Minimum Standard of Living[11]:
  A third option for a basic income payment is to set it at the payment required in order for a person to have a Minimum Standard of Living. A lot of work on this area for Ireland has been done in recent years by the Vincentian Partnership for Social Justice (VPSJ). In 2012 the VPSJ launched a comprehensive study entitled a *'Minimum Income Standard for Ireland'* which establishes the cost of a minimum essential standard of living for individuals and households across the entire lifecycle; from pensioners to children. Subsequently the study calculates the minimum income households require to be able to afford this standard of living.

[10] For detailed explanation of the poverty line see Social Justice Ireland, 2012b:51-54
[11] For further details go to http://www.budgeting.ie/

Alongside setting the level of the basic income payment, a structure for the implementation of the basic income system must also be put in place. Two different options, both of which have the same core financing sources are [12]:

1. Implementation by group
   The first option is to implement the basic income system by introducing payments to certain groups in society in sequence (e.g. children, older people etc.). This could be done over a four year period (Clark and Healy, 1997: 26). One way of proceeding according to the analysis by Clark and Healy would be to introduce a partial basic income payment for adults in the 21-64 age group in year one. In year two, most of the children's basic income would be introduced. In year three, the full payment for older people would be introduced. In year four, the outstanding parts of the children's and adults' payments would be introduced.
2. Implementation in stages
   A second option available is to implement the basic income system in stages by gradually dismantling the current system while simultaneously building up the Basic Income system. This approach identified by Clark and Healy addresses the problems of the complexity of the Irish tax and welfare systems in a very simple way. This approach would establish the basic income system separately from the current tax and welfare systems. It would see the gradual phasing in of the basic income system while the current tax and welfare systems would be gradually phased out. This can be done over whatever time period one chooses.

A Possible Basic Income System for Ireland

The basic income system outlined below is one which is set at the social welfare rate for children, adults of working age and older people in 2012. The social welfare rates used are the current child benefit rate, the current State pension rate and the basic social welfare rate for adults of working age.

The basic income payments in this system for the various groups are outlined in table 1.

[12] For a detailed outline of both these options see Clark and Healy 1997: 24-35

Table 1: Social Welfare Rates Ireland 2012

Social Welfare Payment	Rate per week
Children aged 0-17	€32.30
Adults of working age	€188
Older people aged 66-80	€230.30
Older people aged 80+	€240.30

Ireland has a Child Benefit payment that is universal and is, in effect, a basic income payment that goes to all children. In Budget 2012, these payments were worth €140 a month for the first and second child, €148 per month for the third child and €160 per month for the fourth and subsequent child. Therefore, in effect there is a basic income system in place for children. Young adults aged 18-20 do not currently qualify for a universal payment. It is proposed that this group receive a basic income payment of €100 per week provided that certain conditions relating to work/study are met.

The current Social Welfare basic payment to adults of working age (21-64) who are not in employment is €188 per week. The basic income system that the authors propose would see all adults of working age receiving this payment of €188 per week; replacing social welfare payments for those not in employment and replacing tax credits for those in employment. In this way every adult would receive a universal basic income and would pay a flat rate of income tax on all income earned through employment. This basic income system removes the poverty and unemployment traps within the current social welfare system and it ensures that a person is always better off by taking up a paid job or increasing their income while in employment.

Alongside these basic payments additional 'top-up' payments to cover the additional costs incurred by those people with a disability, suffering from illness or with other special needs would be maintained. A range of payments to vulnerable people in areas such as education, children, travel, redundancy, jobs training programmes etc. would also be maintained.

The rate for older people would see the State Contributory Pension becoming a universal payment for all adults 65 years of age and above. The State Contributory Pension is not means tested but it is taxable. Those who receive this payment are unlikely to pay tax if it is their only income. The State Contributory Pension is paid only to people from the age of 66 who have *sufficient Irish social insurance contributions*. The social insurance conditions are very complex and there are many who do not qualify for a full payment under this provision. The State non-Contributory Pension is not universal and it is means-tested. In addition, there are approximately 46,000 women who do not have an entitlement to a State Pension for a number of historical reasons and government continues to ignore this group. A universal system would see all of these women receiving a State Pension. In summary, a basic income system would provide a universal payment to all people aged 65 and over.

Table 2: Cost of providing proposed basic income payments to the full population in Ireland

Age band	**Population**	**Amount per week**	**Amount per annum**
0-17	1,143,372	€32.20	€1,921,089,061
18-20*	170,365	€100	€888,964,570
21-64	2,739,122	€188	€26,870,348,560
65-79	404,757	€230.30	€4,863,986,726
80+	130,636	€240.30	€1,638,25,731
Totals	**4,588,252**		**€36,182,414,648**

*****These payments to 18-20 year olds would/could be conditional on participation in education/training/paid employment.

Table 2 sets out the cost of providing basic income payments to the full population in Ireland in 2012. The totals are calculated on the basis of the number of people in each age cohort and the payment that they would receive. This calculation was made using CSO population data for each of the age cohorts outlined in Table 1 and multiplying the relevant cohort by the corresponding social welfare payment. As indicated also we have also proposed a €100 a week payment for young adults (18-20 year-olds) linked to participation in education/work.

This basic income system would be funded through the means currently available to the government, without introducing an additional tax specifically to fund this payment. The sources of funding for the basic income system proposed are:

- Current social welfare payments
- Current income tax credits
- Social Solidarity Fund (paid by employers instead of PRSI i.e. their current payment for Pay-Related Social Insurance)
- Administrative savings through integrating the tax and welfare systems and through reforming the tax expenditures available for pensions and other programmes
- Income tax (in Ireland income tax (including the Universal Social Charge and levies) is less than half of Ireland's tax revenue in 2011.

All other taxes (including corporation tax, motor tax, VAT, capital gains tax, capital acquisitions tax, custom duties, excise duties, stamp duty, EU taxes, fees) will be retained. The net cost of this basic income system proposal in 2012 is €39.21 billion and is outlined in the table below.

Table 3: Cost of Basic Income Proposal for Ireland

Item	€
Payments (cf Table 2)	36.18bn
Other payments*	3.42bn
Gross cost	39.60bn
Other savings**	0.39bn
Net Cost of Basic Income	**39.21bn**

* Other payments refer to the range of payments to vulnerable people as referred to previously, for example disability or illness.

**The savings would be made in Government expenditure on grants for particular purposes.

The income generated by the current tax system and the expenditure of the current social welfare system are detailed in table 4 below.

Table 4:	**Existing Income Tax and Welfare Systems**		
Income €		**Expenditure €**	
PRSI	7.37bn	DSP, SIF incl. administration*	20.54bn
Income tax (including USC)	15.00bn		
Totals	**22.37bn**		**20.54bn**

*DSP = Department of Social Protection
SIF = Social Insurance Fund

Table 4 sets out the cost of implementing this basic income proposal in Ireland. The total amount of revenue generated from the current income tax system (inclusive of the Universal Social Charge) is estimated to be €22.37 billion in 2012. The expenditure by the Department of Social Protection (DSP) on welfare payments, the Social Insurance Fund (SIF)[13] and administration for 2011 is €20.54 billion. This shows that there is an overall surplus generated by the Income Tax and Welfare system of €1.83 billion (€22.37bn - €20.54bn) which is used currently to help finance other Government expenditure e.g. health, education, security etc. We again draw the reader's attention to the fact that income tax currently provides less than half the total tax-take collected by the Irish Government. This surplus must also be included in the calculations for financing a basic income system. Including this surplus and adding the net cost of a basic income proposed in Table 3 the total funding required to fund a basic income system in Ireland would be €41.04 billion (cf table 5).

[13] Employer and employee PRSI contributions are paid into the Social Insurance Fund to finance a range of contributory social insurance benefits, pensions and other payments. There is also provision for the Exchequer to make a subvention to the Fund if expenditure exceeds income. For more details see http://www.welfare.ie/EN/Policy/CorporatePublications/Finance/Documents/sif2010.pdf

Table 5: Funding required to fund this Basic Income proposal	
Item	**€**
Net cost of basic income	39.21bn
Surplus generated by current system that must be funded*	1.83bn
Total	**41.04bn**

* Surplus generated by the existing Income Tax and Welfare System: €22.37bn - €20.54bn = €1.83bn

Table 6 sets out the sources of funding for this basic income system. It would be funded by:

a) A Social Solidarity Fund (i.e. a fund which would replace the existing employers PRSI fund and into which employers would pay the same amount of money that they currently contribute to PRSI) and
b) A flat rate income tax rate of 45% on all personal income. This flat rate of income tax at 45% would replace the current income tax and the PRSI and universal social charge that make up the current income tax system.

Table 6: Sources of required funding for this proposed BI system	
Item	**€**
Social Solidarity Fund (which would be funded by employers continuing to pay employers PRSI)	5.49bn
Flat income tax rate @ 45% on all personal income	36.04bn
Total	**41.53bn**

In this context it is important to note that the current marginal rate for the combined income tax, PRSI and universal social charge, which would be replaced in this proposal, is 52% (41%+4%+7%); therefore the flat income tax rate for a basic income system would be seven percentage points lower than the current marginal rate.

Further work

While the proposed basic income set out in this paper is full and universal, this does not mean that there would be no conditions. Possible areas for further research include:

a) The issue of residency (current and previous) as a condition of eligibility from policy and legal perspectives is an area that needs further examination.
b) The implications of a substantial partial basic income as a step towards (or even a substitute for) a full basic income.

Conclusion

A basic income system is an essential component for Ireland if it is to move towards a sustainable future and a social model that values and includes the well-being of all members of society and respects and protects the common good and common resources for future generations. Basic income is affordable, feasible and politically viable in Ireland today. It is an essential component of any sustainable, equitable and inclusive future for present and future generations in Ireland. It is clear, simple, transparent and easy to administer unlike the current tax and welfare system.

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