

Universal Basic Income and Labour Policy

Keith Rankin, 22 November 2014

On Radio New Zealand's Nine-to-Noon on Wednesday (19 November), new Labour leader Andrew Little intimated that he would like to put Universal Basic Income (UBI) on his policy agenda ([What policy changes will Andrew Little usher in?](#)) Predictably Kathryn Ryan, although one of our most considered and reflective media journalists, reflecting popular skepticism soon asked how that could be paid for. Little kicked for touch on that issue; indeed that was the correct thing to do on a first (and very general) interview such as this one.

How will he handle this issue in future interviews when he will be required to be more specific? Certainly I believe that Little has the opportunity and ability to push this idea into the mainstream in a way that most other politicians could not. I think he's capable of understanding the concept. Certainly he understands the issue, that the labour market cannot solve the problems of inequality and poverty in the twenty-first century. Further, I am convinced that his principal message – "nobody left behind" (stated on *The Nation* on 9 November) – reflects a genuine commitment to socially progressive politics.

Excerpt from an early 2015 Interview of Andrew Small by Media Personality

Media Personality: Mr Small, we understand that you are sympathetic to the introduction to New Zealand of a Universal Basic Income. Where will you get the money from to pay a new benefit to everyone, whether they need it or not?

Andrew Small: Universal Basic Income mainly represents a new way of integrating and accounting for our present system of income taxes and benefits. The first and most important part of this reform would cost nothing and would make no changes to the distribution of income. Rather it would help us to see the inequalities that we face, and would open up new options that would allow productivity growth to be accompanied by reduced inequality.

Media Personality: What is the point, if it's just an accounting exercise?

Andrew Small: Change is an ongoing process, not a one-off event. The process begins with the understanding that, at present, every New Zealander earning over \$70,000 per year already receives a universal basic income of just over \$9,000 each year. If you calculate tax on \$100,000 a year at the trust rate of 33 cents in the dollar you get \$33,000. The actual tax paid by such a person is \$24,000. The difference between \$33,000 and \$24,000 is \$9,000. We can call that \$9,000 a Universal Basic Income. It can be understood as a public equity dividend, a return on our collective stake in New Zealand Inc.

Media Personality: So it still doesn't change anything. And what about people not earning \$70,000?

Andrew Small: It changes the way we think about our income. Thus this person grossing \$100,000 can think of \$67,000 of her income as privately sourced, through her contribution to her employer's business. And she can understand that the remaining \$9,000 of her income is publicly-sourced income, resulting from her equity in New Zealand Inc.

Media Personality: I see. So the reasoning is that everyone with equity in New Zealand should receive this \$9,000 payment, not just the people on high incomes who already receive it?

Andrew Small: Yes. And indeed all persons presently in work in New Zealand already receive most of this \$9,000 basic income. We just calculate the difference between their present after-tax income and what their income would be if subject to the 33% trust rate. Before I talk more about these people, we should note that almost everyone we today call a beneficiary receives annual benefit payments in excess of \$9,000. Once we adopt the proposed basic income system of public accounting, the first \$9,000 of their

benefit would be called a Universal Basic Income. Their 'benefit' – in the conventional sense of that word – would now be the excess; anything they now receive over and above their basic income.

Media Personality: How would this affect children?

Andrew Small: At present we pay benefits that we call 'family tax credits' to parents of many children. We don't pay benefits to children under 18, except in exceptional circumstances. Payments of this type (upto \$9,000) to fulltime parents would be accounted for as basic income.

Media Personality: Who would benefit most from your proposal?

Andrew Small: The first people to benefit will be those who discover that they presently receive basic incomes less than the full amount. These are mainly the working poor. They would benefit because they would become first in line to receive what in the past we would have called a tax cut. After a few years of economic growth, every tax-payer would pay tax at the trust rate of 33% (or slightly more) and would receive an annual basic income of \$9,000 (or slightly more). Every beneficiary would receive at least that basic income amount; an amount that could be topped up in accordance with their circumstances.

Media Personality: What do you mean by "slightly more"?

Andrew Small: Once the Universal Basic Income accounting system (strictly, the Basic Income Flat Tax system) is in place, then political parties such as Labour would advocate changes to the tax rate and the basic income amount. I would imagine that a centre-right party such as National would typically advocate the retention of existing rates and amounts. ACT on the other hand would probably advocate a reduced tax rate, along with a reduced basic income. Labour might seek to raise the tax rate, and return the extra revenue raised as part of that public equity dividend known as Universal Basic Income. In taking these different positions, all three parties could be fiscally neutral. Neither party's policy would affect the government's overall Budget balance, except to the extent that one *tax-benefit combination* might raise the rate of economic growth more than another party's proposal. Universal systems can only be understood properly as combinations of tax and benefit.

Media Personality: Would not this proposal just become a charter for lazy people?

Andrew Small: It is a proposal that can ensure a certain amount of income surety in a world in which wage income becomes increasingly uncertain and irregular. Some ascetics might be able to subsist on \$9,000 per year. Good luck to them; they will be treading lightly on our planet. However for most people the \$9,000 (or how ever much) in the future will represent a baseline from which to pay for food. It would, on its own, be insufficient income to meet their needs and wants. So most people will want to participate in the labour market to ensure an appropriate balance between privately-sourced and publicly-sourced income. A universal basic income is an incentive to take on uncertain and irregular work, knowing that they will still have a basic income to fall back on when their job finishes or if their business venture fails. They will never have to reapply for a basic income; it would be a dividend, not a hand-out.

Media Personality: Would this proposal make a lot of public servants unemployed?

Andrew Small: Not immediately, because substantial transition would be required to simplify the benefit system, which would now become a basic-income top-up system which only some present beneficiaries would require. Inland Revenue would administer the simplified tax regime, and the basic income payment. All other needs-based top-up payments would be managed by Work and Income. Over time, with substantially simplified systems in place, there would be substantial labour cost savings. A smaller proportion of the labour force than at present would be required to service the tax and benefit systems.

Media Personality: What would happen to the distribution of income over the coming decades?

Andrew Small: Today, increased labour productivity means more inequality. With a universal basic income in place, what ordinary citizens lose through less employment can be more than made up for through higher public equity dividends. Also, workers' bargaining power would increase as prospective employees would be better able to say 'no' to exploitative provisions in their employment contracts. Those with minimal market power gain by having an alternative source of income, even if that alternative is quite small. A universal basic income gives a young worker an opportunity to refuse a poor job offer; to hold out for a better offer. And workers taking industrial action to improve their wages or terms and conditions will retain their basic incomes while locked out or on strike. Uncertain wage income would be complemented by certain basic income. Productivity growth arising from technological change is a public-private process. A Universal Basic Income ensures that all benefit from that process. Increased inequality of income and wealth can first be arrested and then reversed.

Media Personality: Thankyou Mr Small.

Andrew Small: You're welcome.