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Universal Basic Income and Income Tax Reform

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Meanings and Process

The New Zealand Labour Party is investigating, among other things, the adoption of a Universal Basic Income (UBI) as a means of ensuring reduced economic insecurity in the face of an increasingly precarious labour market.

It is an essential and long-overdue step, appreciating that increases in productivity should be accompanied by the development of income distribution rules that ensure productivity dividends are equitably shared.

The problem today is to manage the politics of rights-based welfare, and the widespread misinformation about such

universal income solutions. Misinformation is propagated by overenthusiastic supporters, seeking a revolutionary ‘big bang’ change that will allow people to choose not to engage with the labour market, and presumptive opponents who restrict their criticisms to these more utopian (and easily criticised) versions of universal income.

Two examples of substantial misinformation occurred on [TVNZ’s Q+A programme](#) screened on 20 March this year.

When Jessica Mutch interviewed the Prime Minister, she asked him what he thought about the adoption of a “[universal wage](#)” (at 11:30 mins). Prime Minister John Key answered as if he had no idea what was being asked; it wasn’t clear if he had never heard of a universal basic income, or if he was thrown by the use of the word ‘wage’. A universal basic income is not a ‘wage’. A wage is understood as an income gained in return for doing something. A universal basic income is a return on equity, not on labour; it’s a public equity dividend, best understood as a return on common ownership of cultural, intellectual and physical property that’s in the public domain. For an example, water is a public domain resource. Instead of assuming that nobody owns water, we appreciate that everyone owns water.

The second example was when Greg Boyed suggested that a universal basic income could cost as much as [\\$60 billion](#) (at 3:20 mins). Boyed had clearly been talking to someone who has been engaging in ‘straw man’ politics. Unfortunately we are not hearing enough people saying ‘nonsense’ to these claims. Indeed the most important part of the required reform is a conceptual accounting change that costs precisely zero. After that the cost depends on the initial size of the universal benefit, the timeframe and mechanism adopted for raising it.

The immediate benefit of pursuing an inexpensive evolutionary approach is that it becomes possible to make increased publicly-sourced payments as increased equity benefits; payments that in the past would have been called ‘tax cuts’ and would have gone mainly to the least needy.

We can learn from the political process that took place in 1937 and 1938 before Universal Superannuation was adopted in New Zealand. The whole idea of universal superannuation was nearly abandoned, because the cost seemed to be too high for the levels of payment social security reformers were advocating. The momentum within the Labour Party was shifting strongly from an essentially universal social security system towards a fully redistributive one. In the end, Universal Superannuation was saved by public servants, not political activists, who pointed out that the principle of universalism was more important to the wider public than the initial levels of payment. So, at the last minute, Labour in 1938 legislated for a ‘token’ universal benefit to over-65-year-olds in 1940, adding a timeframe for raising the level annually until the promised ‘adequate’ level was achieved. This ‘token benefit’ became the difference between a popular welfare system that was lauded across the world for its vision, and an insufficiently inclusive reform that might have clunked at the 1938 ballot-box.

Incomes and Income Tax

Universal Basic Income should be understood principally as an exercise in income-tax reform. Thus it’s an observation about the necessary ‘Future of Income’ that crosses-over into the ‘Future of Work’ discussion. Income represents the beneficial (or ‘happiness’) side of the socio-economic ledger. Work belongs on the cost (or ‘unhappiness’) side of that ledger. While work is not a benefit, the opportunity to gain an income is a benefit. For too many today, work represents the *only* opportunity to gain an income. Hence we tend to talk about work itself as being a benefit, and the diminution of work therefore as a cost. It’s upside-down labourist thinking.

Generally, we can only live economically healthy lives if we have at least two sources of income. Our ancestors gained income both from the land and from their labour. That direct access to land gave them a degree of bargaining power in the labour market, and a means to survive long periods of weakness in the labour market. Today, few of us have sufficient equity in private land that can contribute in any meaningful way as an alternative income stream to the wage or salary or self-employment income we depend on. Yet there is more productive property – in the aggregate – than there ever has been. Our requirement today is to find a way to draw individual incomes from that mass of property – much of which represents commonly-held public equity.

The way to do this is to tax all income at source at an appropriate rate – say between 33% and 37% – and to distribute a substantial proportion of that revenue, equally, to public equity beneficiaries. It’s that simple conceptually, and our present income-tax systems are much closer to this ideal than we realise.

In New Zealand it would not be a fiscal revolution to tax all income at the same 33% rate and to ensure that every tax-resident adult received in return at least \$175 each week from public revenue; it would in traditional terms be

equivalent to a tax cut for some people. (It would, however, be a conceptually revolutionary change for academics, politicians, public servants and journalists to think through.) For maybe half of New Zealand tax-residents the only change they would see would be in the itemisation of their pay-slips, or their benefits. For most of the rest, there would be an extra after-tax income of a few dollars per week.

Likewise, in Australia a flat rate of income tax of 37% combined with a universal basic income of \$A232 per week would leave approximately half of Australians with an unchanged income, and others with a bit more.

Income-tax reform comes first. In 2018, after the 2017 New Zealand general election, the government could choose to account for income-tax as a flat-rate tax of 33%, and to describe existing income-tax concessions as public equity benefits. Then that government could determine what level of basic income it could afford in 2020. A Labour Government could contemplate a tax increase to say 35%, with all the extra revenue being returned to the basic income fund, enabling a \$200 per week basic income payment to each adult tax-resident.

There are other transition paths.

One is for Labour to go into the 2017 election with the following income tax rates: 33% above \$48,000; 17.5% on incomes from \$9,370 to \$48,000; zero on incomes below \$9,370. It gives tax cuts *only* to people earning less than \$70,000; with an effective UBI of \$175 per week to everyone earning over \$48,000 before tax. In addition, Labour could affirm that the first \$175 per week of beneficiaries' incomes should be regarded as a UBI.

Another transition path would be, in 2018 if elected, to introduce a 'personal tax rebate' of \$175 per week, in conjunction with a flat tax rate of 33%. Something like this happened in the 1973 Labour Budget, when a personal tax rebate of \$125 per year was introduced in conjunction with some flattening of the income tax scale.

The biggest mistake that Labour could make would be to promise some kind of universal 'wage' – whatever that might mean – to be implemented separately from the tax system. Universal Basic Income is the benefit component an income-tax and benefit integration that simply couples a rate of income tax (eg 33%) with a universal basic income (eg \$175 per week) paid as a tax credit. That's all it is. Nothing for anyone to fear. No robbing Peter to pay Paul. No licence to laze. It ensures that precariously employed people – and students and mothers and others – will always have \$175 of publicly-sourced income each week from which they may pay their most important bills. If properly explained, this simple unobtrusive mechanism can win over those today on modest incomes who often work long hours, and who may have been told that a universal basic income will mean them paying higher taxes to support people who do not wish to work.

Keith has recently written about a UBI for [Evening Report](#), and his slides from a presentation to the Fabian Society on 23 February 2016 are available [here](#). A list of his writings can be found at <http://www.keithrankin.co.nz>

Tags: [Income tax](#), [tax](#), [welfare](#)

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About the author

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Keith Rankin, an economic historian by training, lectures in economics at Auckland's Unitec Institute of Technology.

Keith has written widely about tax and welfare issues, including articles on Universal Basic Income dating back to 1991. Recent articles that are topical include chapters in Palgrave MacMillan books “Basic Income in Australia and New Zealand: Perspectives from the Neoliberal Frontier” (2015) and “Basic Income Worldwide: Horizons of Reform” (2012), and a chapter in “Taxation Issues: Existing and Emerging” (2011) published in Christchurch by the Centre for Commercial and Corporate Law.

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