

## **Feasibility Study: A Basic Income Pilot Project for Wales**

### **A response to the report *Piloting a Basic Income in Wales***

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UKMOD delivers static microsimulation results, and does not account for possible behavioural responses nor for general equilibrium effects.

The results obtained during this research project and their interpretation are the author's responsibility. Opinions expressed in this report should not be regarded as opinions of the Nuffield Foundation, the Freiburg Institute for Basic Income Studies, the Institute for Policy Research at the University of Bath, where the author is a Visiting Fellow, or the Basic Income Earth Network (BIEN), of which he is treasurer and a trustee.

## 1. Introduction

A Basic Income is an equal, regular and unconditional income for every individual of the same age. Following increasing political interest in the idea in Wales, in June 2021 the think tank Autonomy and the Basic Income Conversation (hosted by the think tank Compass) published *Piloting a Basic Income in Wales: Principles, precedents and feasibility* (Goodman et al., 2021). The report begins by responding to three questions: ‘What is a Basic Income?’, ‘What are the potential advantages?’, and ‘What are Basic Income pilots?’. It then discusses ‘The state of play in Wales’, ‘Progress at the UK level’, ‘Moving forward in Wales’, ‘Beginning with the “why”’ (a study of the reasons for holding Basic Income pilot projects), and finally ‘Pilot design: An option for Wales’: a detailed proposal for a Welsh Basic Income pilot project. An appendix contains descriptions of previous experiments around the world.

This response will first of all evaluate the Basic Income scheme recommended for the pilot project described in the chapter ‘Pilot design’ in the Welsh report. It will then describe an alternative Basic Income scheme for Wales, and some feasible pilot projects: first of all Basic Incomes for specific age cohorts (– these would be genuine Basic Incomes, because everyone of the same age would be receiving the same unconditional income), and secondly, a pilot project for a single large community.

## 2. *Piloting a Basic Income in Wales*

While this report is not a general review of *Piloting a Basic Income in Wales*, three things ought to be said:

- The report is useful and informative in relation to the arguments for implementing a Basic Income in Wales, and for holding a pilot project;
- There are significant problems with the project described in ‘Pilot design’. These will be described below;
- The experiments described in the appendix are called pilot projects, but most of them are not. The Finland experiment might be regarded as being close to a Basic Income pilot project, but the experiments in the Netherlands and Ontario were with incomes with significant conditions attached. It has caused much confusion in the now global Basic Income debate for Ontario to have called its experiment a Basic Income pilot project when it was not one. The unconditional incomes provided for the residents of multiple villages in Madhya Pradesh constitute the only genuine Basic Income pilot project listed in the appendix. The only other genuine pilot project ever held, in Namibia, does not get a mention, which is a pity. Stanford University is correct to call its map a ‘Map of Universal Basic Income Experiments and Related Programs’. Most of the experiments on the map are not Basic Income pilot projects.

## 3. Definitions

This raises the important question of definitions. Any research project requires terms to be defined, and for the purposes of this response to the Welsh study three definitions are clearly required.

- A ‘Basic Income’ will be defined as ‘an equal, regular and unconditional income for every individual of the same age’. This definition conforms to the definition published by the Basic Income Earth Network (BIEN), ‘A Basic Income is a periodic cash

payment unconditionally delivered to all on an individual basis, without means-test or work requirement' (Basic Income Earth Network (BIEN), 2021), and that published by the Citizen's Basic Income Trust, 'An unconditional, nonwithdrawable income paid to every individual as a right of citizenship' (Citizen's Basic Income Trust, 2021).

- A 'Basic Income scheme' is a Basic Income, with levels defined for each age group, the funding method fully specified, and any accompanying changes to existing tax and benefits systems also fully specified.
- A 'pilot project': The relevant definition of 'pilot' used as an adjective is given by the Oxford English Dictionary as 'That serves as a prototype or trial prior to a full-scale operation or activity; experimental, initial'. Examples are given: 'pilot study', 'pilot project'. This suggests that we should define 'pilot project' as 'A prototype or trial Basic Income scheme prior to a full-scale Basic Income scheme'. For the purposes of this study we shall therefore require that the Basic Income scheme that is the subject of the pilot project should have the same characteristics as the national Basic Income scheme for which it is a pilot project, or sufficient of those characteristics to enable the effects of the pilot project to predict all of the effects of the national scheme.

#### **4. Proposals**

The report *Piloting a Basic Income in Wales* contains two proposals for a pilot project.

In the chapter 'Pilot design: An option for Wales' it describes in detail a Basic Income scheme that would be tested on five thousand Welsh residents, divided between urban and rural settings. This proposal will be addressed below.

Another option for a 'pilot project' is briefly discussed in a previous chapter of *Piloting a Basic Income in Wales*: an unconditional income for young care leavers (Goodman et al., 2021: 29). While such an experiment would be an unconditional income for care leavers, it would not itself meet the definition of a Basic Income because a condition of receipt would be that an individual had just left the care of the local authority. This would put the experiment in the same category as the Finland experiment that made the unemployment benefit of two thousand randomly selected unemployed individuals unconditional for a period of two years without altering other benefits or the tax system. That experiment produced some useful results in relation to wellbeing and employment market activity, but the unconditional incomes of €560 per month could not feasibly have been rolled out to every adult of working age, so we would have to call the project a Basic Income experiment and not a Basic Income pilot project (Torry, 2021b: 183–9). The proposal to pay an otherwise unconditional income to care-leavers could also produce some useful results in relation to wellbeing employment market activity, but insufficient detail is given to enable us to evaluate the proposal as a potential Basic Income pilot project. We would need to know the amounts that would be paid, how the payments would be funded, and whether and how the existing tax and benefits system would be changed for the recipients. We would also need to know the extent to which care-leavers are typical of Welsh residents of the same age in relation to their incomes, household structure, and so on. Only that information would enable us to decide whether the experiment would count as a Basic Income pilot project: that is, whether it would be feasible to roll out the Basic Income scheme to every Welsh resident of the same age, and whether the results of the experiment would be replicated across the whole of the relevant age group if everyone of that age were to receive the Basic Income.

Whether or not an unconditional income for care leavers could be regarded as a Basic Income pilot project, such an income could be useful to the care leavers, and the experiment is to be encouraged.

## 5. The Basic Income scheme and pilot project proposed in the chapter ‘Pilot design’ in *Piloting a Basic Income in Wales*

The authors of *Piloting a Basic Income in Wales* describe the Basic Income scheme that they would like to see implemented in Wales as follows: It would

- Provide a monthly, automatic and unconditional cash payment to every individual who is usually resident in Wales;
- Include residents above retirement age, and also children, whose payments would be directed to a guardian until they reach a designated age;
- Be set at an amount sufficient to have a meaningful impact on everyday life;
- Sit alongside relevant supplemental benefits, such as disability-related benefits, to avoid negative impacts on Wales residents with additional needs;
- Be taxable, meaning that while every resident receives the same basic income, those most in need would retain a larger proportion, whilst the most well off would gain relatively less in net terms. This makes a basic income fair as well as universal. (Goodman et al., 2021: 33)
- The main existing means-tested benefits would be suspended, and Basic Incomes would be disregarded in relation to others. (Goodman et al., 2021: 37)

The authors propose a pilot project of the same character, except that the Basic Incomes would not be taxed (Goodman et al., 2021: 41), and that there would be an additional requirement: that no participant should be worse off than they would have been if they had not participated (Goodman et al., 2021: 43). The pilot project would have a sample size of 5,000, and would run for two years (Goodman et al., 2021: 35, 38). The levels of the Basic Incomes to be given during the project would be as follows:

*Table 1: Proposed Basic Income rates in the report Piloting a Basic Income in Wales*

Age range	Payment rate per week
Child (0-17)	£120.48
Adult aged 18-64	£213.59
Adult aged 65+	£195.90

Source: Goodman et al., 2021: 36

The authors explain:

These payment amounts have been suggested with reference to the Joseph Rowntree Foundation’s Minimum Income Standard (Davis et al., 2018) - a method which engages members of the public in a deliberative process, in order to identify the things that everybody should be able to afford. (Goodman et al., 2021: 36)

## 6. Evaluation of the Basic Income scheme proposed in *Piloting a Basic Income in Wales*

The Basic Income scheme described in the chapter ‘Pilot design’ is remarkably similar to a scheme described in research undertaken in 2015: a scheme that aligned its Basic Income

rates with the Joseph Rowntree Foundation's Minimum Income Standards, and that suspended means-tested benefits (Torry, 2015: 3–7; 2020b). The research showed that if the Basic Incomes were to be paid for from within the current tax and benefits system ( – see below on why it is essential to assume this for research of this kind), then as well as the Income Tax Personal Allowance having to be reduced to zero, all Income Tax rates would have to be *raised* by 28 percentage points. The research also showed that the scheme would impose household disposable income losses of over 10 per cent on 29 per cent of households in the lowest disposable income decile. Such a scheme is clearly infeasible, which means that the scheme proposed in the chapter 'Pilot design' would be infeasible if implemented for the entire Welsh population.

The proposed experiment involving five thousand participants would not suffer from these infeasibilities because the authors require that no household should suffer a disposable income loss if they took part (Goodman et al., 2021: 43). This requirement would be fulfillable because there is no suggestion that Income Tax rates would be raised for the test sample, or that their Income Tax Personal Allowances would be reduced. The authors calculate the net cost of the pilot project to be £50m per annum (Goodman et al., 2021: 42), which it would clearly be possible to find.

However, if the scheme were to be implemented for the whole of Wales, then 3,170,000 (Office for National Statistics, 2021) and not 5,000 individuals would have to receive the Basic Incomes. The net cost would then be  $(50 \times 3,170,000)/5,000 = \text{£}31.7\text{bn}$  per annum. The Gross Domestic Product (GDP) of Wales is £77.5bn, so the net cost of the Basic Income scheme would be 40.9% of Welsh GDP, and each individual in Wales would have to find  $(31.7\text{bn}/3.17\text{m}) = \text{£}10,000$  per annum to fund the Basic Incomes. In 2018, tax revenue of £22bn was collected in Wales (Ifan and Poole, 2018: 16). Well over double the current amount of tax would have to be collected in Wales to enable the proposed Basic Incomes to be funded. This coheres with the 28 percentage point rise in Income Tax rates found to be required by the Basic Income scheme tested in the research carried out in 2015 (Torry, 2015). It would clearly be impossible to implement the proposed scheme for the whole of the Welsh population.

Because the Basic Income scheme planned for the experiment would not be feasible to implement nationwide, and because a pilot project is an experiment that 'serves as a prototype or trial prior to a full-scale operation or activity; experimental, initial' (Oxford English Dictionary), we have to conclude that the experiment described in *Piloting a Basic Income in Wales* should not be called a pilot project.

## **7. An alternative proposal**

For an experiment to be counted as a pilot project, it would have to test a Basic Income scheme that it would be feasible to roll out to every Welsh resident. So rather than choosing a Basic Income scheme – in the case of *Piloting a Basic Income in Wales*, a scheme based on Basic Incomes pegged to the Joseph Rowntree Foundation's Minimum Income Standards – feasibility criteria should first of all be set, a Basic Income scheme should then be sought that would fulfil those criteria, and options for pilot projects for that scheme should then be discussed.

For the purposes of the research reported below, the following feasibility criteria have been assumed:

- As few changes as possible are to be made to the current tax and benefits system, consistent with the other aims in view. (This criterion is required because of the



difficulty of getting multiple complex changes through the UK's policy process at the same time);

- revenue neutrality (Hirsch, 2015), which for the purposes of this research exercise is taken to be a net cost or saving of no more than 0.1 per cent of Welsh GDP for the scheme as a whole. (This is the same criterion for revenue neutrality as in previous microsimulation exercises for the UK);
- the avoidance of significant household net disposable income losses, particularly for low income households, and in particular an aim of no more than 2 per cent of low income households experiencing household net disposable income losses of more than 5 per cent;
- the basic rate of Income Tax to rise by no more than 2 percentage points, the higher rate by no more than 3 percentage points, and the top rate by no more than 4 percentage points. (This criterion is required because Income Tax rate increases are as much a psychological issue as a fiscal one) (Hirsch, 2015);
- reductions in inequality and in all poverty indices;
- substantial numbers of households taken off means-tested benefits, or brought within striking distance of coming off them.

The revenue neutrality criterion is essential for at least three reasons:

- Any funding gap would have to be filled from another source of funds: for instance, a carbon tax. Getting one change through the UK's policy process is difficult enough. Attempting to get both a Basic Income and a carbon tax through the process at the same time would be even more problematic. Once a Basic Income, funded from within the current tax and benefits system, had been established, funding an increase in the Basic Incomes by establishing a carbon tax would then be both sensible and possible;
- Tax revenue can normally be employed for any government purpose, so there is no intrinsic reason for a consumption tax, a carbon tax, or almost any other tax, to be used by a government to fund a Basic Income scheme. The one exception is the combination of Income Tax and National Insurance Contributions. The substantial additional tax revenue obtained from significant reductions in the Income Tax Personal Allowance and the Lower Earnings Threshold would have to be returned immediately to households if large household disposable income losses were to be avoided, so tax revenue from this source could only be used to fund the Basic Incomes.
- If there is a funding gap in an illustrative Basic Income scheme, then the additional funds required would have to be obtained from somewhere: a carbon tax or consumption taxes are sometimes suggested. Any additional source of funds would impact household disposable incomes, which would render the results obtained from the microsimulation exercise unreliable and therefore misleading if published.

The currently regressive nature of National Insurance Contributions (NICs) invites an increase from 2 per cent of earned income to 12 per cent of earned income above the Upper Earnings Limit, so collecting NICs at 12 per cent on all earned income above the Primary Earnings Threshold would provide a legitimate and useful funding source.

While some of the funds to pay for the Basic Income scheme would be obtained from increasing the Income Tax rates and the National Insurance Contributions rate for higher

earners, most of the funds would be obtained by reducing the Income Tax Personal Allowance and the National Insurance Contributions Primary Earnings Threshold. Most previous illustrative schemes for the UK have reduced these thresholds to zero. The research reported here takes a more balanced approach, and allows for a layer of tax-free earned income in order to encourage occasional and part-time employment and the establishment of new enterprises.

## 8. The research method, and the results obtained

The research conducted in preparation for this response employed a microsimulation programme: UKMOD. This is a computer programme into which are coded all of the tax and benefits regulations of a particular country: in this case the United Kingdom. Financial data for a statistically significant sample of the country's population (in this case the Family Resources Survey data) is passed through the programme, and a variety of statistics are generated. The programme is then rewritten to include a Basic Income, and to make changes to current taxes and benefits, and it is run again to generate a new set of statistics. The two sets of statistics can then be compared to discover some of the real world effects of implementing the Basic Income scheme that has been written into the programme. In particular, we can discover the net cost of a scheme, how poverty and inequality indices would change, how many significant net household disposable income losses would occur, how income would be redistributed, and how many households would be taken off means-tested benefits.

UKMOD A2.51+ offers a number of options for the microsimulation of the UK's tax and benefits system for the financial year 2021-22, and in particular the researcher can choose what level of continuing economic and employment effects of Covid-19 to assume. For the purposes of the research reported here the central estimate for Covid-19 shocks has been chosen. All figures given are for the financial year 2021-22. The recent increase in National Insurance Contributions to pay for higher budgets for the National Health Service and social care occurred after the research was completed, and so has not been taken into account.

Having set the criteria, the values of a wide variety of parameters of an illustrative scheme have been varied in turn, with each iteration being tested by microsimulation to see whether it fits the criteria, and new iterations being tested until a scheme that fits the criteria has been found. As with previous projects, no attempt has been made to find an optimal scheme once a scheme that fits the criteria has been discovered.

The illustrative scheme that has emerged from this process is as follows:

The scheme retains a small but meaningful Income Tax Personal Allowance of £2334, with a matching Primary Earnings Threshold of £45 per week, and pays a Working Age Adult Basic Income of £60 per week<sup>1</sup> along with lower amounts for younger adults, a £10 per week addition to Child Benefit, and a small Citizen's Pension alongside the existing Basic State Pension. The basic rate of Income Tax is raised from 20% to 23%, the higher rate from 40% to 43%, and the highest rate from 45% to 49%: increases that would be psychologically and therefore politically feasible. Because the Basic Incomes cannot be high enough to remove all households from means-tested benefits, the Basic Incomes are taken into account in the same

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<sup>1</sup> Calculation: If  $x$  is the residual Income Tax Personal Allowance (ITPA), and the National Insurance Contribution (NIC) Primary Earnings Threshold (PET) is designed so that NICs and Income Tax (IT) start to be paid at the same earned income level, then in relation to values of ITPA and NIC PET for 2021:  $((12570 - x) / 52) \times (22 / 100) + ((184 - (x / 52)) \times (12 / 100)) = 60$ .  $x = 2334$ . So the residual ITPA = £2334 p.a., and the NIC PET is  $x / 52 = 44.88$ , so £45 p.w.

way as other income when means-tested benefits are calculated, except that in relation to Housing Benefit and Council Tax Benefit only half of each Basic Income is taken into account in order to reduce the number of low-income household disposable income losses to an acceptable level.

The outcome is an illustrative Basic Income scheme that retains a small but still meaningful Income Tax Personal Allowance, and a small but meaningful National Insurance Contributions Primary Earnings Threshold, and that raises Income Tax rates by feasible amounts, while at the same time paying Basic Incomes at levels that would make a significant difference to individuals' and households' financial security. The Basic Income levels and Child Benefit increase translate into completely secure layers of income of £260 per month for an individual living alone, £520 per month for a couple, and £759.99 per month for a couple with two children.

Detailed results for the microsimulation exercise are as follows:

*Table 2: The illustrative Basic Income scheme*

<b>Basic Income levels, tax rates, and net cost of scheme</b>	
Citizen's Pension per week (existing state pensions remain in payment)	£35
Working age adult Basic Income per week (25 to 65 years old)	£60
Young adult Basic Income per week (20 to 24 years old)	£50
Education age Basic Income per week (16 to 19 years old, but not young people still in full-time education, and whose families therefore receive Child Benefit)	£25
(Child Benefit is increased by £10 per week)	[£10]
Income Tax, basic rate (on £2335 – £50,270)	23%
Income Tax, higher rate (on £50,271 – £150,000)	43%
Income Tax, top rate (on £150,000 – )	49%
Net cost of scheme (£64.48m p.a. equates to 0.084% of Welsh GDP)	£64.48m p.a.

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

It might be of interest that this scheme matches almost entirely a feasible illustrative scheme discovered for the UK as a whole (Torry, 2021a: 6–13), except that in order to achieve revenue neutrality, the UK scheme would require an increase in the basic rate of Income Tax of 2 percentage points, whereas the Welsh scheme would require an increase of 3 percentage points. This difference indicates that earned incomes are on average lower in Wales than they are in the UK as a whole.

Table 3 shows how many households would suffer disposable income losses of over 10% and over 5%, and how many households in the lowest equivalised disposable income quintile<sup>2</sup> would suffer losses of over 10% and over 5%.

<sup>2</sup> The OECD equivalisation method is used, which allocates 1 for the first adult in a household, 0.5 for a second person aged 14 or over, and 0.3 for children under 14 years old. The figures are added, and the household disposable income divided by the total to generate the equivalised income. Households are then ordered by their equivalised incomes and the losses experienced by households with the lowest 20% of equivalised disposable incomes are evaluated.

Table 3: Household disposable income losses

<b>Household disposable income losses over 10% and 5% for all households and for the lowest equivalised disposable income quintile</b> (figures for the lowest equivalised original income quintile are given in brackets)	
Proportion of all households experiencing losses of over 5% at the point of implementation	6.08%
Proportion of all households experiencing losses of over 10% at the point of implementation	0.54%
Proportion of households in the lowest equivalised disposable (original) income quintile experiencing losses of over 5% at the point of implementation	1.79% (0.79%)
Proportion of households in the lowest equivalised disposable (original) income quintile experiencing losses of over 10% at the point of implementation	0.46% (0.40%)

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

Table 4 shows the changes in the numbers of households receiving means-tested benefits, and also the numbers of households brought within striking distance of coming off them.

Table 4: Reductions in numbers claiming means-tested benefits or within striking distance of coming off them, and the reductions in the total costs of the benefits and in the average value of claims

<b>Numbers of households claiming means-tested benefits or within striking distance of coming off them</b>	<b>The existing scheme in 2021-22</b>	<b>The Basic Income scheme</b>
Percentage of households claiming any means-tested benefits	30.88%	30.47%
Percentage of households claiming more than £100 per month in means-tested benefits	27.72%	25.31%
Percentage of households claiming more than £200 per month in means-tested benefits	25.97%	16.22%
<b>Reductions in total cost and average value of claims for means-tested benefits</b>	<b>Reduction in total cost</b>	<b>Reduction in average value of claim</b>
All means-tested benefits	27.29%	26.81%

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

Tables 5 to 8 show reductions in inequality and in poverty rates.

Table 5: Poverty indices for 2021-22 for the illustrative Basic Income scheme (based on incomes before housing costs)

Poverty headcount by population group	Poverty rates for current system	Poverty rates for Basic Income scheme	Difference in poverty rates	Percentage reduction
All	17.14%	14.17%	-2.97pp	17.33%
Children	20.90%	14.33%	-6.57pp	31.44%
Adults	15.75%	13.76%	-1.99pp	12.63%
Adults Economically Active	7.18%	6.31%	-0.87pp	12.17%
Elderly	17.45%	15.21%	-2.24pp	12.84%
Fixed Poverty Line	£298.91			

Source: UKMOD statistics presenter

Table 6: Poverty indices for 2021-22 for the illustrative Basic Income scheme (based on incomes after housing costs)

Poverty headcount by population group	Poverty rates for current system	Poverty rates for Basic Income scheme	Difference in poverty rates	Percentage reduction
All	21.46%	18.76%	-2.70pp	12.58%
Children	26.53%	23.99%	-2.54pp	9.57%
Adults	20.17%	17.81%	-2.36pp	11.70%
Adults Economically Active	10.10%	9.02%	-1.08pp	10.69%
Elderly	20.16%	16.28%	-3.88pp	19.25%
Fixed Poverty Line	£269.87			

Source: UKMOD statistics presenter

Table 7: Inequality indices for 2021-22 household disposable incomes for the illustrative Basic Income scheme (based on incomes before housing costs)

Gini coefficient for current system	Gini coefficient for Basic Income scheme	Difference between the two Gini coefficients	S80/S20 ratio for current system	S80/S20 ratio for Basic Income scheme	Difference between the two S80/S20 ratios
0.3078	0.2800	-0.0278	4.9695	4.1202	-0.8492

Source: UKMOD statistics presenter

Table 8: Inequality indices for 2021-22 household disposable incomes for the illustrative Basic Income scheme (based on incomes after housing costs)

Gini coefficient for current system	Gini coefficient for Basic Income scheme	Difference between the two Gini coefficients	S80/S20 ratio for current system	S80/S20 ratio for Basic Income scheme	Difference between the two S80/S20 ratios
0.3470	0.3192	-0.0278	6.5383	5.3076	-1.2307

Source: UKMOD statistics presenter

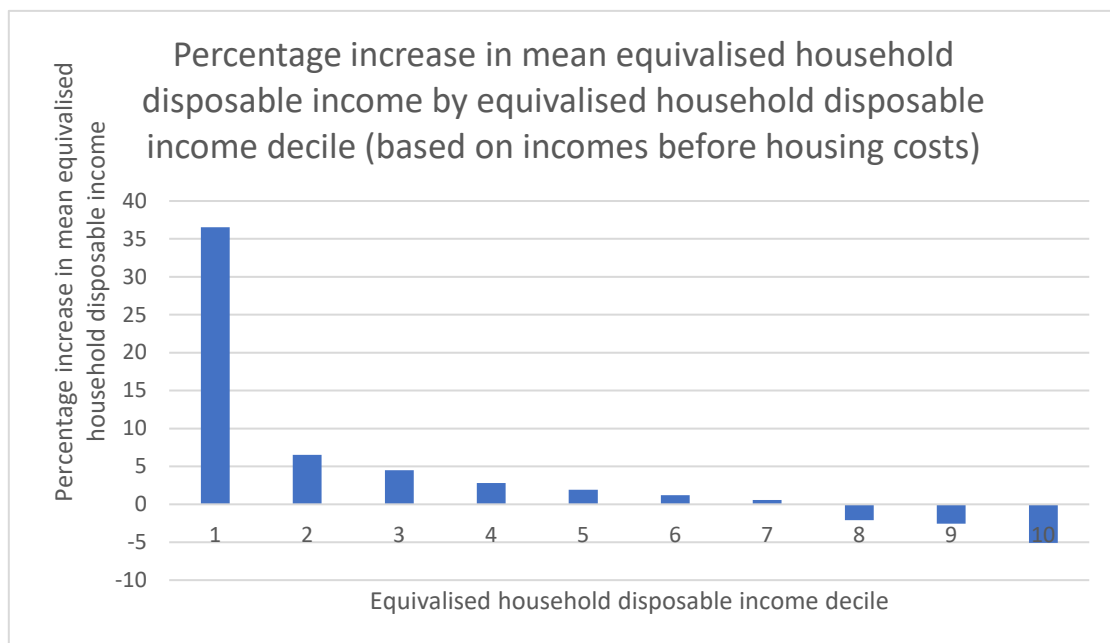
Tables 9 and 10, and figures 1 and 2, show the redistribution patterns that would result from the implementation of the Basic Income scheme, in relation both to incomes before housing costs and incomes after housing costs.

*Table 9: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes before housing costs)*

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	154.73	211.28	56.54	36.54%
Decile 2	286.11	304.75	18.63	6.51%
Decile 3	350.93	366.72	15.79	4.50%
Decile 4	405.72	417.13	11.41	2.81%
Decile 5	464.69	473.54	8.85	1.90%
Decile 6	530.52	536.83	6.31	1.19%
Decile 7	605.37	608.85	3.48	0.57%
Decile 8	701.71	687.04	-14.68	-2.09%
Decile 9	866.03	843.76	-22.27	-2.57%
Decile 10	1,527.89	1,442.30	-85.59	-5.11%

Source: UKMOD statistics presenter

*Figure 1*



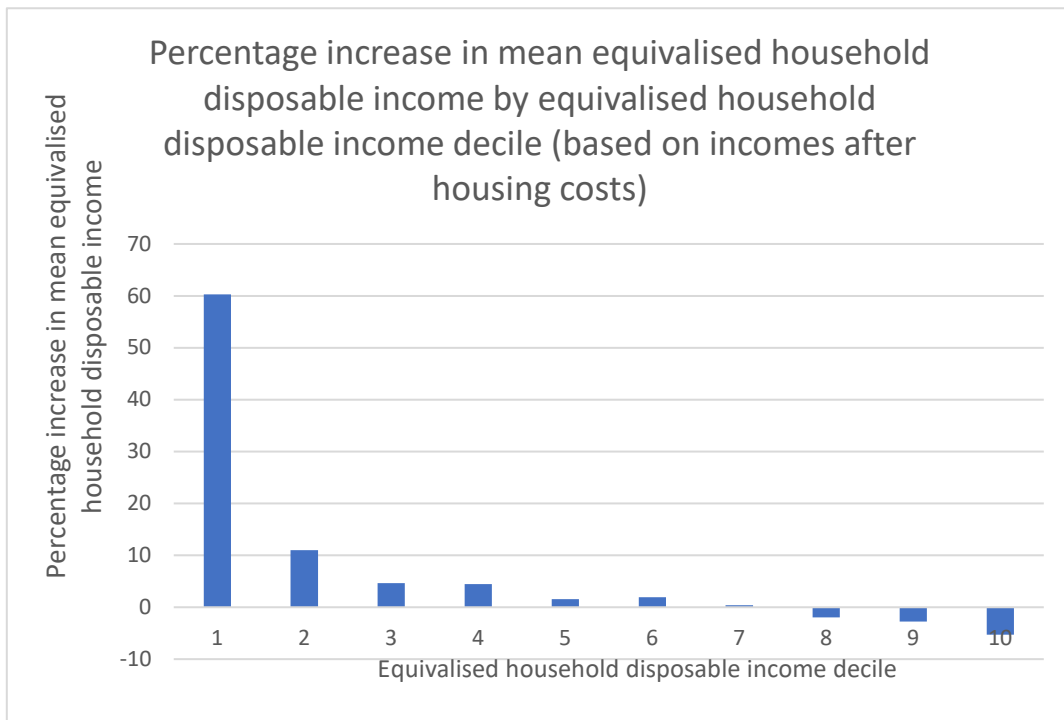
Source: Table created by the author from figures generated by the UKMOD statistics presenter

Table 10: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes after housing costs)

	Current tax and benefits system, £ per week	Basic Income scheme, £ per week	Difference, £ per week	Percentage increase
Decile 1	78.17	125.29	47.12	60.28%
Decile 2	223.85	248.46	24.61	10.99%
Decile 3	290.2	303.61	13.41	4.62%
Decile 4	339.79	354.89	15.1	4.44%
Decile 5	407.79	414.26	6.46	1.58%
Decile 6	486.1	495.6	9.5	1.95%
Decile 7	561.9	564.22	2.32	0.41%
Decile 8	666.7	653.47	-13.23	-1.98
Decile 9	812.39	790.14	-22.26	-2.74
Decile 10	1,298.10	1,229.66	-68.44	-5.27

Source: UKMOD statistics presenter

Figure 2



Source: Table created by the author from figures generated by the UKMOD statistics presenter

This is the kind of redistributive pattern that we might wish to see generated by a Basic Income scheme. Given that low-income households have a higher propensity to consume than higher income households, the additional income that lower income households would receive on average would increase demand in the economy. The scheme would also benefit the disposable incomes of mid-range income households. Only those with the highest incomes would experience average disposable income losses: but those losses should be well understood in the current circumstances, and would also be manageable.

The Basic Income scheme described here would fulfil all of the feasibility criteria, and so could feasibly be rolled out to the entire Welsh population. It would also be easy to implement, and so could be rolled out quite quickly if the political will existed in both the UK and Welsh governments to do that. Most importantly, the scheme would result in a significant layer of secure and predictable income for every household in Wales, and would thus generate the useful effects envisaged for a Basic Income by the authors of *Piloting a Basic Income in Wales*.

## **9. Pilot projects**

A pilot project is ‘a prototype or trial Basic Income scheme prior to a full-scale Basic Income scheme’. The following sections of this report study options for pilot projects of two kinds: first of all, Basic Incomes for every resident in Wales in particular age cohorts; and secondly, a Basic Income for every resident of a particular community. For the first type of pilot project we are able to match or exceed relevant characteristics of the feasible Basic Income scheme discussed above, so in that sense they would be genuine pilot projects. For the second type we have to take into account the difficulty of altering the Income Tax and benefits systems for a particular community, and the reasonable requirement suggested by the authors of *Piloting a Basic Income in Wales* that for a pilot project no participant should find themselves worse off than they would have been if they had not participated: so for this type of experiment to be counted as a pilot project we have to get as close as possible to the characteristics of a feasible Basic Income scheme while taking the constraints into account. The reader will have to decide whether the proposed pilot project of the second type is sufficiently close to a feasible Basic Income scheme to count as a genuine pilot project.

## **10. An enhanced Child Benefit**

The UK already has a Basic Income for children: Child Benefit. Although there were suggestions in 2010 that this would be means-tested, that has never happened. Instead, an additional tax charge was implemented for high earners living in households in receipt of Child Benefit. Child Benefit itself remains an unconditional income for every child. There is a sense in which it might be thought that Child Benefit does not fulfil the criteria for a Basic Income because the rate is higher for the first child in a family and lower for the second and subsequent children: but because Child Benefit is in practice an income given to the main carer, every main carer with the same number of children receives the same amount of Child Benefit unconditionally, which means it remains legitimate to call Child Benefit a Basic Income for children.

Microsimulation research shows that a £10 per week increase in Child Benefit for every child could be paid for by increasing the rate of National Insurance Contributions above the Upper Earnings Limit from 2% to 12%. No other changes would need to be made.



Microsimulation results are as follows:

The net cost of the scheme would £45.34m p.a., which equates to 0.059% of Welsh GDP, so a scheme that increases Child Benefit by £10 per week and the rate of National Insurance Contributions above the Upper Earnings Limit from 2% to 12% would be revenue neutral.

*Table 11: Household disposable income losses for the enhanced Child Benefit scheme*

<b>Household disposable income losses over 10% and 5% for all households</b>	
Proportion of all households experiencing losses of over 5% at the point of implementation	1.45%
Proportion of all households experiencing losses of over 10% at the point of implementation	0.27%

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

Losses would only occur in higher earning households. There would be zero household disposable income losses for low income households.

No change would occur in the numbers of households on means-tested benefits or within striking distance of coming off them.

Tables 12 to 15 show the reductions in inequality and poverty rates that would be achieved.

*Table 12: Poverty indices for 2021-22 for the increase in Child Benefit (based on incomes before housing costs)*

<b>Poverty headcount by population group</b>	<b>Poverty rates for current system</b>	<b>Poverty rates for Basic Income scheme</b>	<b>Difference in poverty rates</b>	<b>Percentage reduction</b>
All	17.14%	16.34%	-0.79pp	4.67%
Children	20.90%	18.25%	-2.65pp	12.68%
Adults	15.75%	15.32%	-0.43pp	2.73%
Adults Economically Active	7.18%	6.90%	-0.28pp	3.90%
Elderly	17.45%	17.45%	0.00pp	0%
Fixed Poverty Line	£298.91			

Source: UKMOD statistics presenter

Table 13: Poverty indices for 2021-22 for the increase in Child Benefit (based on incomes after housing costs)

Poverty headcount by population group	Poverty rates for current system	Poverty rates for Basic Income scheme	Difference in poverty rates	Percentage reduction
All	21.46%	20.66%	-0.79pp	3.73%
Children	26.53%	24.86%	-1.68pp	6.29%
Adults	20.17%	19.41%	-0.76pp	3.77%
Adults Economically Active	10.10%	9.28%	-0.82pp	8.12%
Elderly	20.16%	20.16%	0.00pp	0%
Fixed Poverty Line	£269.87			

Source: UKMOD statistics presenter

Table 14: Inequality indices for 2021-22 household disposable incomes for the increase in Child Benefit (based on incomes before housing costs)

Gini coefficient for current system	Gini coefficient for Basic Income scheme	Difference between the two Gini coefficients	S80/S20 ratio for current system	S80/S20 ratio for Basic Income scheme	Difference between the two S80/S20 ratios
0.3078	0.2992	-0.0087	4.9695	4.7458	-0.2236

Source: UKMOD statistics presenter

Table 15: Inequality indices for 2021-22 household disposable incomes for increase in Child Benefit (based on incomes after housing costs)

Gini coefficient for current system	Gini coefficient for Basic Income scheme	Difference between the two Gini coefficients	S80/S20 ratio for current system	S80/S20 ratio for Basic Income scheme	Difference between the two S80/S20 ratios
0.3470	0.3375	-0.0095	6.5383	6.2862	-0.2521

Source: UKMOD statistics presenter

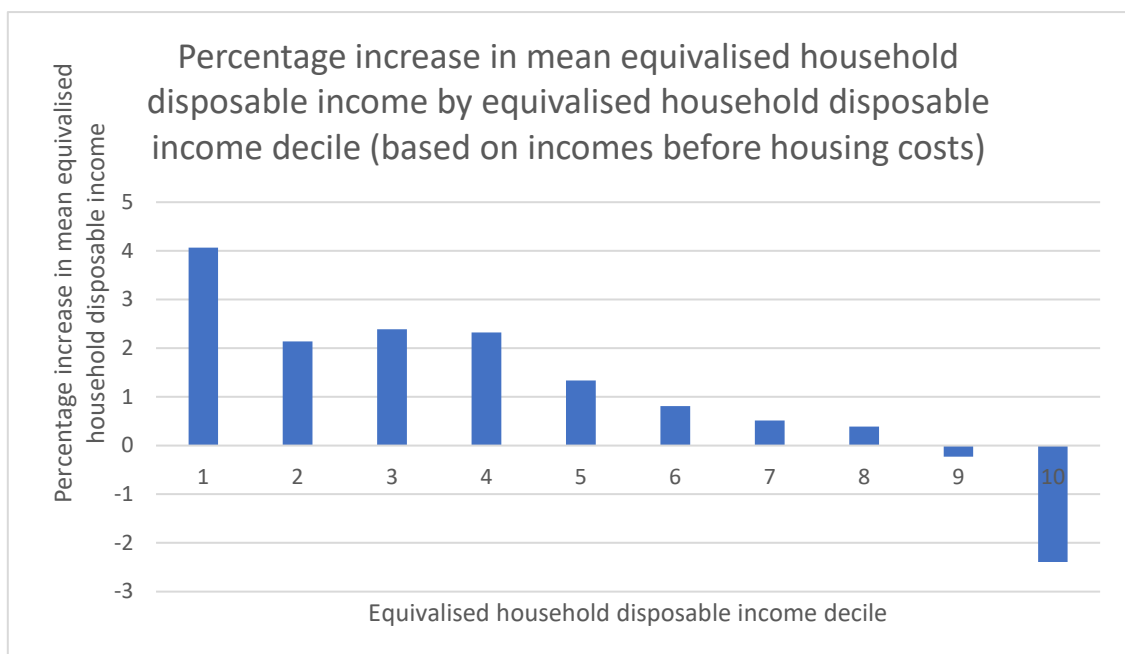
Tables 16 and 17, and figures 3 and 4, show the redistribution patterns that would result from the implementation of the Basic Income scheme, both in relation to incomes before housing costs and incomes after housing costs.

Table 16: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes before housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	154.73	161.02	6.29	4.07%
Decile 2	286.11	292.24	6.13	2.14%
Decile 3	350.93	359.31	8.38	2.39%
Decile 4	405.72	415.15	9.43	2.32%
Decile 5	464.69	470.9	6.21	1.34%
Decile 6	530.52	534.84	4.32	0.81%
Decile 7	605.37	608.47	3.1	0.51%
Decile 8	701.71	704.44	2.72	0.39%
Decile 9	866.03	864.03	-2	-0.23%
Decile 10	1,353.20	1,320.81	-32.39	-2.39%

Source: UKMOD statistics presenter

Figure 3



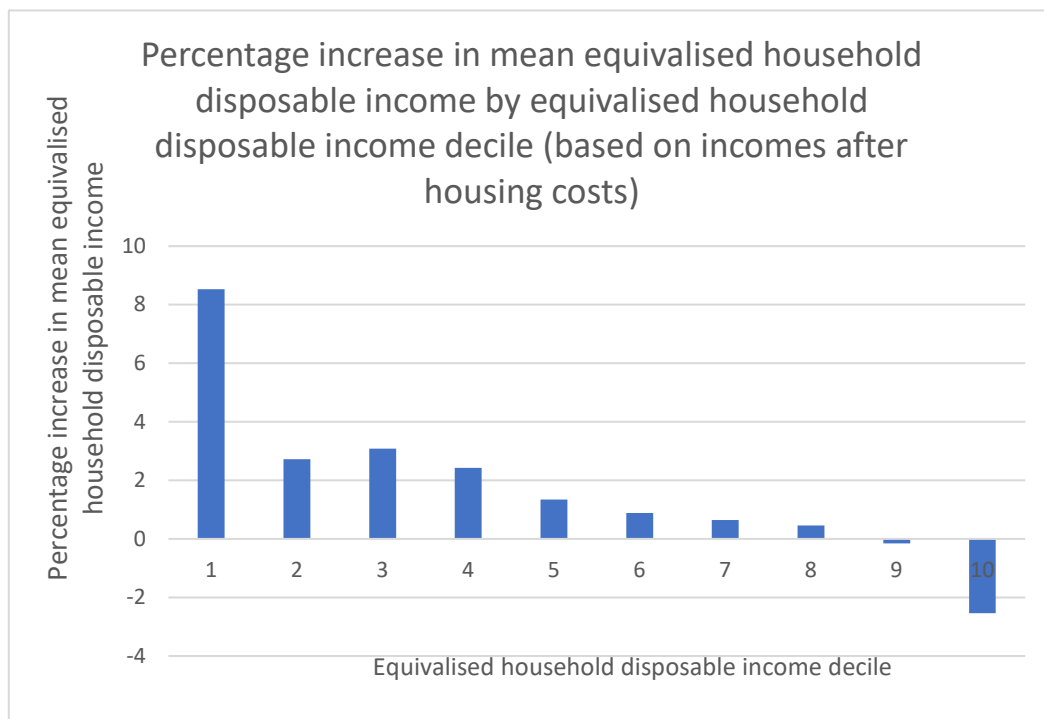
Source: Table created by the author from figures generated by the UKMOD statistics presenter

Table 17: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes after housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	78.17	84.84	6.67	8.53%
Decile 2	223.85	229.94	6.09	2.72%
Decile 3	290.2	299.16	8.96	3.09%
Decile 4	339.79	348.04	8.25	2.43%
Decile 5	407.79	413.3	5.5	1.35%
Decile 6	486.1	490.43	4.33	0.89%
Decile 7	561.9	565.5	3.6	0.64%
Decile 8	666.7	669.76	3.06	0.46
Decile 9	812.39	811.17	-1.22	-0.15
Decile 10	1,298.10	1,265.10	-33	-2.54

Source: UKMOD statistics presenter

Figure 4



Source: Table created by the author from figures generated by the UKMOD statistics presenter

We can see that implementing this component of the illustrative Basic Income scheme would have an impact on poverty, but that the complete Basic Income scheme would generate a far larger reduction.

## 11. A Citizen's Pension

The UK's contribution-based Basic State Pension, and the new higher contribution-based pension now being rolled out, are not far from being Citizen's Pensions: unconditional pensions for everyone over retirement age. In order to fulfil the feasibility criterion that as few changes as possible should be made to the current tax and benefits system on the implementation of a Basic Income scheme, the illustrative Basic Income discussed above leaves the Basic State Pension in payment and adds a small Citizen's Pension of £35 per week. However, a useful pilot project would be to pay a genuine Citizen's Pension to everyone in Wales over retirement age (which for the sake of convenience for this exercise is taken to be everyone over 65 years of age).

Microsimulation research shows that a Citizen's Pension set at 5 per cent above the 2021 Basic State Pension level could be paid for by increasing all Income Tax rates by 2 percentage points. The Basic State Pension would no longer be paid, but no other changes to the current tax and benefits system would be required.

*Table 18: The Citizen's Pension*

<b>Basic Income levels, tax rates, and net cost of scheme</b>	
Citizen's Pension per week (existing contributory state pensions are abolished)	£144.48
Income Tax, basic rate (on £12,570 – £50,270)	22%
Income Tax, higher rate (on £50,271 – £150,000)	42%
Income Tax, top rate (on £150,000 – )	47%
Net cost of scheme (£113.34m p.a. equates to 0.15% of Welsh GDP, which is slightly above the level that we would normally regard as revenue neutrality)	£113.34m p.a.

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

Only one household in the Family Resources Survey data for Wales would experience a household net disposable income loss of over 5 per cent.

Table 19 shows the changes in the numbers of households receiving means-tested benefits, and also the numbers of households brought within striking distance of coming off them.

*Table 19: Reductions in numbers claiming means-tested benefits or within striking distance of coming off them, and the reductions in the total costs of the benefits and the average value of claims*

<b>Numbers of households claiming means-tested benefits or within striking distance of coming off them</b>	<b>The existing scheme in 2021-22</b>	<b>The Basic Income scheme</b>
Percentage of households claiming any means-tested benefits	30.88%	30.35%
Percentage of households claiming more than £100 per month in means-tested benefits	27.72%	26.44%
Percentage of households claiming more than £200 per month in means-tested benefits	25.97%	24.11%
<b>Reductions in total cost and average value of claims for means-tested benefits</b>	<b>Reduction in total cost</b>	<b>Reduction in average value of claim</b>
All means-tested benefits	4.01%	2.71%

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

Tables 20 to 23 show reductions in inequality and in poverty rates.

*Table 20: Poverty indices for 2021-22 for the Citizen's Pension (based on incomes before housing costs)*

<b>Poverty headcount by population group</b>	<b>Poverty rates for current system</b>	<b>Poverty rates for Basic Income scheme</b>	<b>Difference in poverty rates</b>	<b>Percentage reduction</b>
All	17.14%	16.09%	-1.05pp	6.13%
Children	20.90%	20.90%	0.00pp	0%
Adults	15.75%	15.68%	-0.07pp	0.44%
Adults Economically Active	7.18%	7.08%	-0.10pp	1.39%
Elderly	17.45%	12.42%	-5.02pp	28.83%
Fixed Poverty Line	£298.91			

Source: UKMOD statistics presenter

Table 21: Poverty indices for 2021-22 for the Citizen's Pension (based on incomes after housing costs)

Poverty headcount by population group	Poverty rates for current system	Poverty rates for Basic Income scheme	Difference in poverty rates	Percentage reduction
All	21.46%	20.63%	-0.83pp	3.86%
Children	26.53%	26.53%	0.00pp	0%
Adults	20.17%	20.19%	0.02pp	-0.10%
Adults Economically Active	10.10%	10.12%	0.02pp	-0.20%
Elderly	20.16%	15.97%	-4.19pp	20.78%
Fixed Poverty Line	£269.87			

Source: UKMOD statistics presenter

Table 22: Inequality indices for 2021-22 household disposable incomes for the Citizen's Pension (based on incomes before housing costs)

Gini coefficient for current system	Gini coefficient for Basic Income scheme	Difference between the two Gini coefficients	S80/S20 ratio for current system	S80/S20 ratio for Basic Income scheme	Difference between the two S80/S20 ratios
0.3078	0.3012	-0.0066	4.9695	4.7204	-0.2490

Source: UKMOD statistics presenter

Table 23: Inequality indices for 2021-22 household disposable incomes for the Citizen's Pension (based on incomes after housing costs)

Gini coefficient for current system	Gini coefficient for Basic Income scheme	Difference between the two Gini coefficients	S80/S20 ratio for current system	S80/S20 ratio for Basic Income scheme	Difference between the two S80/S20 ratios
0.3470	0.3407	-0.0063	6.5383	6.3555	-0.1828

Source: UKMOD statistics presenter

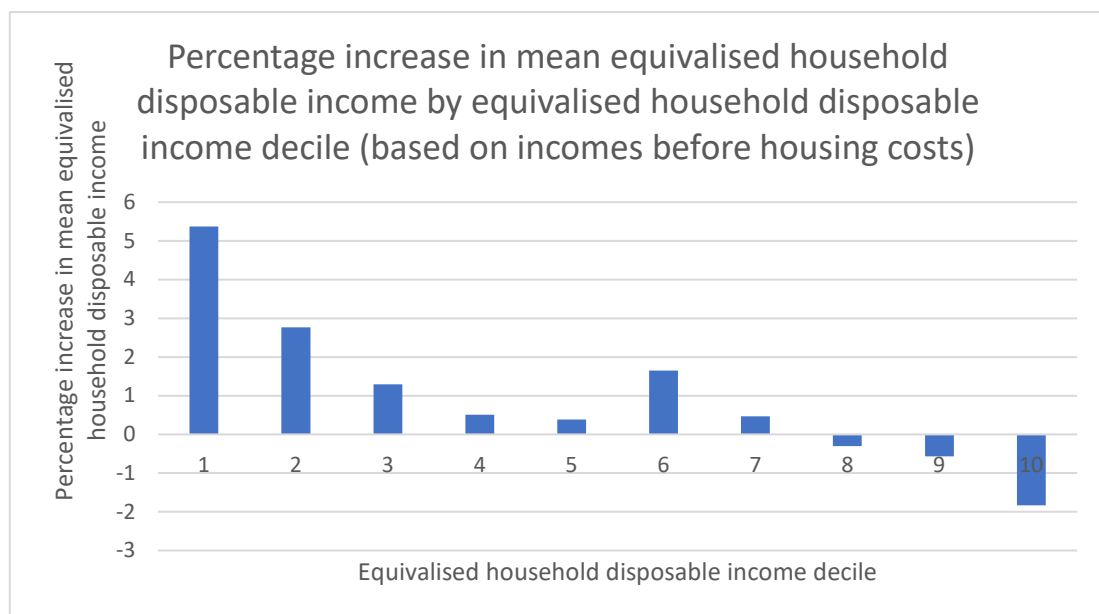
Tables 24 and 25, and figures 5 and 6, show the redistribution patterns that would result from the implementation of the Basic Income scheme, both in relation to incomes before housing costs and incomes after housing costs.

Table 24: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes before housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	154.73	163.04	8.31	5.37%
Decile 2	286.11	294.02	7.91	2.76%
Decile 3	350.93	355.48	4.55	1.30%
Decile 4	405.72	407.77	2.05	0.51%
Decile 5	464.69	466.47	1.78	0.38%
Decile 6	530.52	539.26	8.74	1.65%
Decile 7	605.37	608.21	2.84	0.47%
Decile 8	701.71	699.6	-2.11	-0.30%
Decile 9	866.03	861.12	-4.91	-0.57%
Decile 10	1,353.20	1,328.43	-24.77	-1.83%

Source: UKMOD statistics presenter

Figure 5



Source: Table created by the author from figures generated by the UKMOD statistics presenter

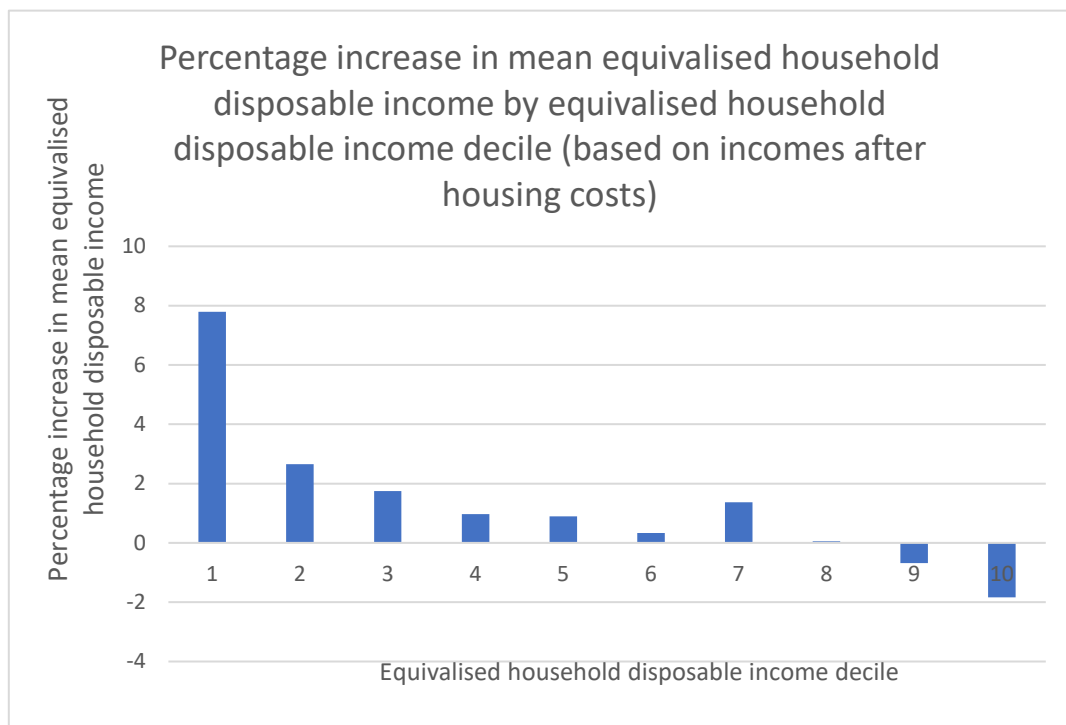


Table 25: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes after housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	78.17	84.26	6.09	7.79%
Decile 2	223.85	229.78	5.93	2.65%
Decile 3	290.2	295.26	5.06	1.74%
Decile 4	339.79	343.1	3.31	0.97%
Decile 5	407.79	411.44	3.65	0.90%
Decile 6	486.1	487.7	1.6	0.33%
Decile 7	561.9	569.59	7.68	1.37%
Decile 8	666.7	667.06	0.35	0.05
Decile 9	812.39	806.82	-5.57	-0.69
Decile 10	1,298.10	1,274.24	-23.87	-1.84

Source: UKMOD statistics presenter

Figure 6



Source: Table created by the author from figures generated by the UKMOD statistics presenter

We can see that replacing existing state contributory pensions with a Citizen's Pension at a level slightly above the current level of the Basic State Pension could be paid for by increasing Income Tax rates by an acceptable amount, and that such a Citizen's Pension would have a considerable impact on poverty among elderly people. A Citizen's Pension would be a useful Basic Income pilot project.

## 12. A Basic Income for under 25s

There would be a good argument for the first stage of the implementation of a Basic Income scheme to be a Basic Income for younger adults, perhaps those under 25 years of age. This is an age group that ought to be spending at least some of its years in education and training, and to provide a secure layer of income to enable individuals to maintain themselves during periods of zero or low earnings would be helpful. This is also an age group with generally less complex existing involvement in the UK's complicated tax and benefits system, meaning that it might be easier to provide a Basic Income for this age group than for some others.

The problem that would always need to be solved if a particular age cohort among working age adults were to be paid a Basic Income is that the tax and benefits system would have to be altered for that group and not for the others. It would not be administratively possible to alter Income Tax rates or National Insurance Contribution rates for a particular age group, but it would be possible to apply a reduced tax code, which would have the effect of reducing the individual's Income Tax Personal Allowance, and it would also be possible to apply a different Primary Earnings Threshold to National Insurance Contributions. The Basic Income scheme would therefore consist of a Basic Income for every individual from the point at which Child Benefit ceased to be paid and up to their twenty-fifth birthday, with perhaps a lower rate for the earlier years of that age range and a higher rate for the later years.

Microsimulation shows that such a Basic Income scheme would be feasible if a Basic Income of £30 per week was to be paid to individuals from the date at which Child Benefit ceased to be paid up to their twentieth birthday, a Basic Income of £50 per week was to be paid from their twentieth birthday to their twenty-fifth birthday, a reduced Income Tax Allowance of £1694 per annum was to be applied, and a reduced National Insurance Contribution Primary Earnings Threshold of £32.50 per week was to be allocated. The net cost would be £386.46m per annum, which equates to 0.5% of Welsh GDP, so the scheme would be somewhat outside the normal criterion for revenue neutrality. This is because for a single age group Income Tax and NIC rates cannot be raised, so some funding would have to be found from elsewhere. Normally one would have to say that with this level of funding gap there would be a certain amount of doubt about the reliability of the microsimulation results, but those results are so far within the normal criteria that in this case that would not need to be of particular concern.

The scheme generates no household disposable income losses greater 2%, so we can assume that any additional funding would not be likely to generate any household disposable income losses greater than 5%.

Table 26 shows the changes in the numbers of households receiving means-tested benefits, and also the numbers of households brought within striking distance of coming off them.

Table 26: Reductions in numbers claiming means-tested benefits or within striking distance of coming off them, and the reductions in the total costs of the benefits and the average value of claims

<b>Numbers of households claiming means-tested benefits or within striking distance of coming off them</b>	<b>The existing scheme in 2021-22</b>	<b>The Basic Income scheme</b>
Percentage of households claiming any means-tested benefits	30.88%	30.64%
Percentage of households claiming more than £100 per month in means-tested benefits	27.72%	26.61%
Percentage of households claiming more than £200 per month in means-tested benefits	25.97%	24.39%
<b>Reductions in total cost and average value of claims for means-tested benefits</b>	<b>Reduction in total cost</b>	<b>Reduction in average value of claim</b>
All means-tested benefits	3.24%	1.93%

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

Tables 27 to 30 show reductions in inequality and in poverty rates.

Table 27: Poverty indices for 2021-22 for the Basic Income for under 25 year olds (based on incomes before housing costs)

<b>Poverty headcount by population group</b>	<b>Poverty rates for current system</b>	<b>Poverty rates for Basic Income scheme</b>	<b>Difference in poverty rates</b>	<b>Percentage reduction</b>
All	17.14%	16.50%	-0.63pp	3.73%
Children	20.90%	20.63%	-0.27pp	1.29%
Adults	15.75%	14.79%	-0.97pp	6.09%
Adults Economically Active	7.18%	6.66%	-0.52pp	7.24%
Elderly	17.45%	17.45%	0.00pp	0%
Fixed Poverty Line	£298.91			

Source: UKMOD statistics presenter

Table 28: Poverty indices for 2021-22 for the Basic Income for under 25 year olds (based on incomes after housing costs)

<b>Poverty headcount by population group</b>	<b>Poverty rates for current system</b>	<b>Poverty rates for Basic Income scheme</b>	<b>Difference in poverty rates</b>	<b>Percentage reduction</b>
All	21.46%	20.23%	-1.23pp	5.73%
Children	26.53%	25.63%	-0.90pp	3.39%
Adults	20.17%	18.42%	-1.75pp	8.68%
Adults Economically Active	10.10%	9.37%	-0.73pp	7.23%
Elderly	20.16%	20.16%	0.00pp	0%
Fixed Poverty Line	£269.87			

Source: UKMOD statistics presenter

Table 29: Inequality indices for 2021-22 household disposable incomes for the Basic Income for under 25 year olds (based on incomes before housing costs)

<b>Gini coefficient for current system</b>	<b>Gini coefficient for Basic Income scheme</b>	<b>Difference between the two Gini coefficients</b>	<b>S80/S20 ratio for current system</b>	<b>S80/S20 ratio for Basic Income scheme</b>	<b>Difference between the two S80/S20 ratios</b>
0.3078	0.3069	-0.0009	4.9695	4.9198	-0.0497

Source: UKMOD statistics presenter

Table 30: Inequality indices for 2021-22 household disposable incomes for the Basic Income for under 25 year olds (based on incomes after housing costs)

<b>Gini coefficient for current system</b>	<b>Gini coefficient for Basic Income scheme</b>	<b>Difference between the two Gini coefficients</b>	<b>S80/S20 ratio for current system</b>	<b>S80/S20 ratio for Basic Income scheme</b>	<b>Difference between the two S80/S20 ratios</b>
0.3470	0.3463	-0.0007	6.5383	6.5789	0.0405

Source: UKMOD statistics presenter

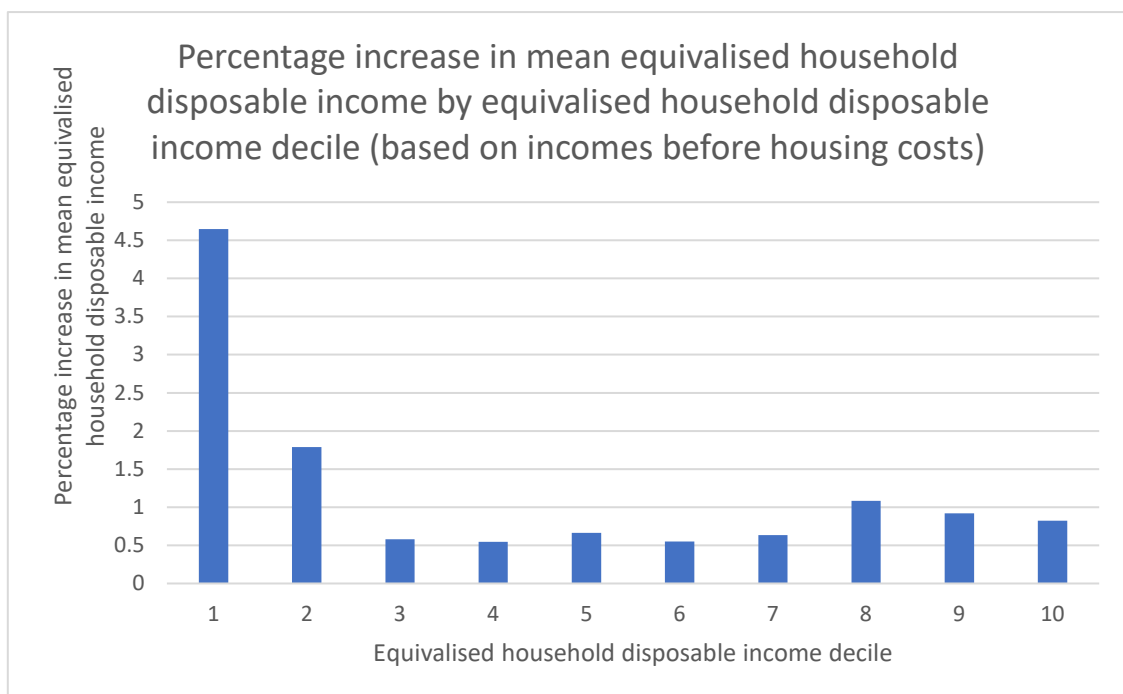
Tables 31 and 32, and figures 7 and 8, show the redistribution patterns that would result from the implementation of the Basic Income scheme, both in relation to incomes before housing costs and incomes after housing costs.

Table 31: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes before housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	154.73	161.92	7.19	4.65%
Decile 2	286.11	291.23	5.12	1.79%
Decile 3	350.93	352.96	2.03	0.58%
Decile 4	405.72	407.94	2.21	0.54%
Decile 5	464.69	467.77	3.08	0.66%
Decile 6	530.52	533.43	2.91	0.55%
Decile 7	605.37	609.21	3.84	0.63%
Decile 8	701.71	709.32	7.6	1.08%
Decile 9	866.03	873.98	7.95	0.92%
Decile 10	1,353.20	1,364.36	11.16	0.82%

Source: UKMOD statistics presenter

Figure 7



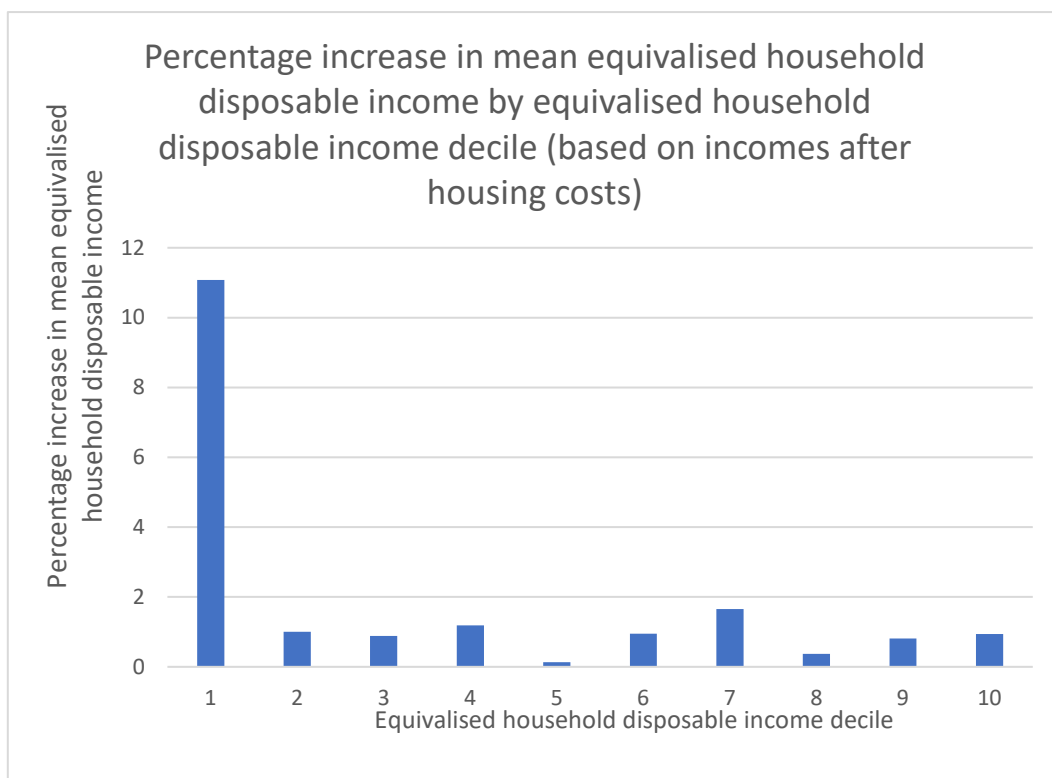
Source: Table created by the author from figures generated by the UKMOD statistics presenter

Table 32: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes after housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	78.17	86.83	8.66	11.08%
Decile 2	223.85	226.09	2.24	1.00%
Decile 3	290.2	292.76	2.56	0.88%
Decile 4	339.79	343.81	4.02	1.18%
Decile 5	407.79	408.35	0.55	0.13%
Decile 6	486.1	490.72	4.62	0.95%
Decile 7	561.9	571.21	9.31	1.66%
Decile 8	666.7	669.16	2.45	0.37
Decile 9	812.39	818.96	6.56	0.81
Decile 10	1,298.10	1,310.28	12.18	0.94

Source: UKMOD statistics presenter

Figure 8



Source: Table created by the author from figures generated by the UKMOD statistics presenter

An interesting question relating to this type of pilot project is what would happen when individuals turned twenty-five and lost their Basic Incomes, and those coming along behind them also knew that they would lose their Basic Incomes when they turned twenty-five. If the effects of the pilot project had been favourable, then it is difficult to see how the Basic Incomes could not then be extended to twenty-five year olds, and that the same would occur during each subsequent year. This would be a useful method for rolling out a nationwide Basic Income. As the process continued, the other funding methods envisaged by the complete Basic Income scheme – Income Tax rate increases and an increase in the National Insurance Contribution rate above the Upper Earnings Limit – would have to be implemented: unless of course such mechanisms as a carbon tax had then been implemented. By that stage that would be possible, as it would not be necessary to get two significant changes through the policy process at the same time.

### **13. A pre-retirement Basic Income**

One of the most difficult periods for income instability can be the pre-retirement age group: so a Basic Income for that age group could be particularly appropriate. This could be paid for in the same way as for the under twenty-fives by reducing the Income Tax Personal Allowance and National Insurance Primary Earnings Threshold for every individual in the age group: say between their sixtieth and sixty-fifth birthdays. Microsimulation research shows that if the Income Tax Personal Allowance were to be reduced to £1694 per annum, and the National Insurance Contributions Primary Earnings Threshold to £32.50 per week, then a Basic Income of £50 per week could be paid. The net cost of the scheme would be £327.06m p.a., which equates to 0.42% of Welsh GDP, so as with the Basic Incomes for under-25s a funding gap would remain. The reason is the same: that it is not possible to raise Income Tax and National Insurance Contribution rates for a single age cohort.

There would be no household disposable income losses greater than 2 per cent, so again, even though the funding gap might mean a certain amount of doubt in relation to the reliability of the microsimulation results, it would be possible to fill the funding gap from elsewhere without imposing household disposable income losses of more than 5 per cent.

Table 33 shows the changes in the numbers of households receiving means-tested benefits, and also the numbers of households brought within striking distance of coming off them.

Table 33: Reductions in numbers claiming means-tested benefits or within striking distance of coming off them, and the reductions in the total costs of the benefits and the average value of claims

<b>Numbers of households claiming means-tested benefits or within striking distance of coming off them</b>	<b>The existing scheme in 2021-22</b>	<b>The Basic Income scheme</b>
Percentage of households claiming any means-tested benefits	30.88%	30.62%
Percentage of households claiming more than £100 per month in means-tested benefits	27.72%	27.72%
Percentage of households claiming more than £200 per month in means-tested benefits	25.97%	25.97%
<b>Reductions in total cost and average value of claims for means-tested benefits</b>	<b>Reduction in total cost</b>	<b>Reduction in average value of claim</b>
All means-tested benefits	1.49%	0.70%

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

Tables 34 to 37 show reductions in inequality and in poverty rates.

Table 34: Poverty indices for 2021-22 for the Pre-retirement Basic Income (based on incomes before housing costs)

<b>Poverty headcount by population group</b>	<b>Poverty rates for current system</b>	<b>Poverty rates for Basic Income scheme</b>	<b>Difference in poverty rates</b>	<b>Percentage reduction</b>
All	17.14%	16.86%	-0.28pp	1.63%
Children	20.90%	20.66%	-0.24pp	1.15%
Adults	15.75%	15.53%	-0.23pp	1.40%
Adults Economically Active	7.18%	7.18%	0.00pp	0%
Elderly	17.45%	16.99%	-0.46pp	2.64%
Fixed Poverty Line	£298.91			

Source: UKMOD statistics presenter



Table 35: Poverty indices for 2021-22 for the Pre-retirement Basic Income (based on incomes after housing costs)

Poverty headcount by population group	Poverty rates for current system	Poverty rates for Basic Income scheme	Difference in poverty rates	Percentage reduction
All	21.46%	21.39%	-0.07pp	0.33%
Children	26.53%	26.53%	0.00pp	0%
Adults	20.17%	20.11%	-0.06pp	0.30%
Adults Economically Active	10.10%	10.10%	0.00pp	0%
Elderly	20.16%	19.99%	-0.17pp	0.84%
Fixed Poverty Line	£269.87			

Source: UKMOD statistics presenter

Table 36: Inequality indices for 2021-22 household disposable incomes for the Pre-retirement Basic Income (based on incomes before housing costs)

Gini coefficient for current system	Gini coefficient for Basic Income scheme	Difference between the two Gini coefficients	S80/S20 ratio for current system	S80/S20 ratio for Basic Income scheme	Difference between the two S80/S20 ratios
0.3078	0.3061	-0.0017	4.9695	4.8875	-0.082

Source: UKMOD statistics presenter

Table 37: Inequality indices for 2021-22 household disposable incomes for the Pre-retirement Basic Income (based on incomes after housing costs)

Gini coefficient for current system	Gini coefficient for Basic Income scheme	Difference between the two Gini coefficients	S80/S20 ratio for current system	S80/S20 ratio for Basic Income scheme	Difference between the two S80/S20 ratios
0.3470	0.3454	-0.0016	6.5383	6.4616	-0.0768

Source: UKMOD statistics presenter

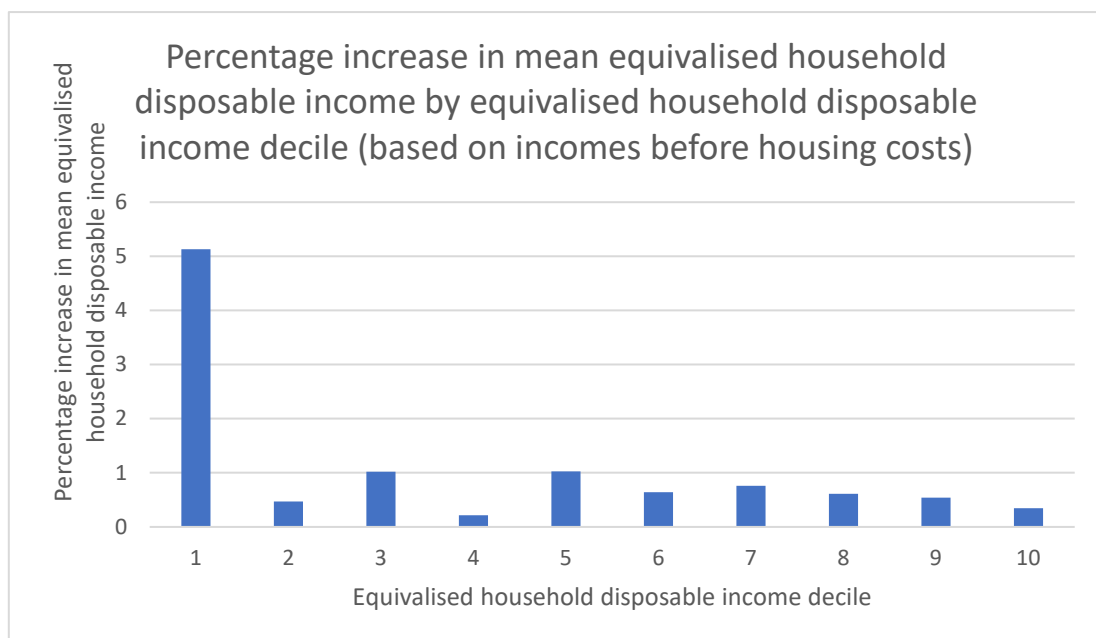
Tables 38 and 39, and figures 9 and 10, show the redistribution patterns that would result from the implementation of the Basic Income scheme, both in relation to incomes before housing costs and incomes after housing costs.

Table 38: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes before housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	154.73	162.68	7.94	5.13%
Decile 2	286.11	287.45	1.34	0.47%
Decile 3	350.93	354.5	3.57	1.02%
Decile 4	405.72	406.6	0.88	0.22%
Decile 5	464.69	469.45	4.76	1.02%
Decile 6	530.52	533.92	3.4	0.64%
Decile 7	605.37	609.99	4.61	0.76%
Decile 8	701.71	706	4.29	0.61%
Decile 9	866.03	870.72	4.69	0.54%
Decile 10	1,353.20	1,357.90	4.7	0.35%

Source: UKMOD statistics presenter

Figure 9



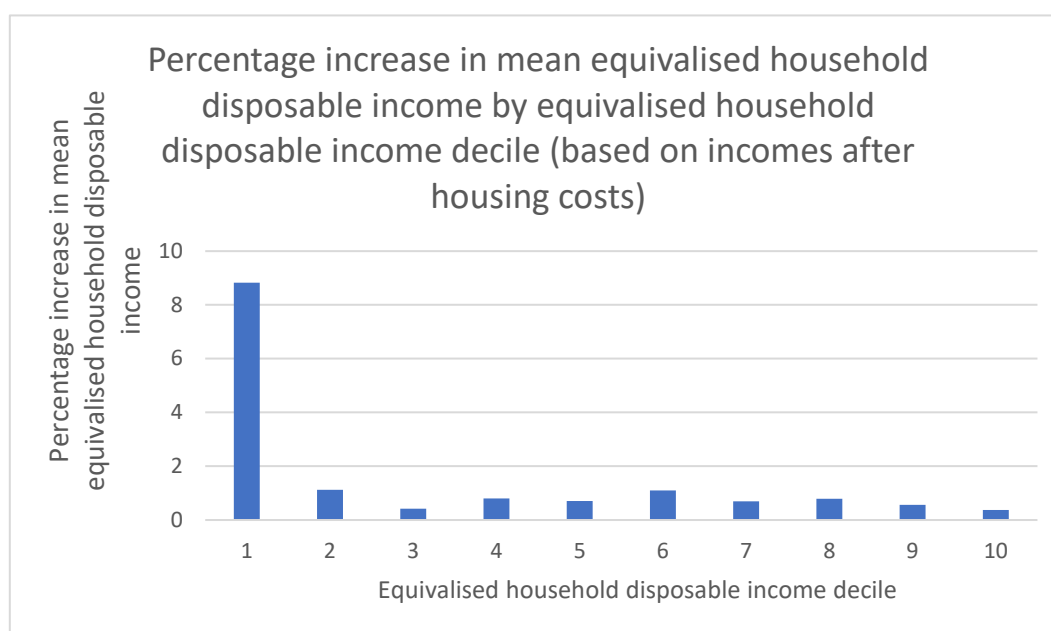
Source: Table created by the author from figures generated by the UKMOD statistics presenter

Table 39: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes after housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	78.17	85.07	6.9	8.83%
Decile 2	223.85	226.36	2.51	1.21%
Decile 3	290.2	291.41	1.21	0.42%
Decile 4	339.79	342.52	2.73	0.80%
Decile 5	407.79	410.66	2.86	0.70%
Decile 6	486.1	491.44	5.34	1.10%
Decile 7	561.9	565.8	3.89	0.69%
Decile 8	666.7	671.95	5.24	0.79%
Decile 9	812.39	816.98	4.58	0.56%
Decile 10	1,298.10	1,302.91	4.8	0.37%

Source: UKMOD statistics presenter

Figure 10



Source: Table created by the author from figures generated by the UKMOD statistics presenter

If there were to be no Citizen’s Pension when those receiving a Pre-retirement Basic Income passed retirement age, then there might be pressure for implementing one; and individuals younger than sixty years of age would know people experiencing a secure layer of income that they were not experiencing, so there might be pressure for extending the Basic Income back down through the age range. If a Basic Income initially for the under-25s were to be extending up the age range, then a meeting in the middle would result in a nationwide Basic Income for every adult.

#### 14. A pilot project in a single community

In a country with a developed economy there will always be problems with any attempt to implement a Basic Income pilot project in a single community. The only two genuine pilot projects ever held have been in Namibia and India: genuine pilot projects because equal and unconditional incomes were paid to every resident in the pilot communities, and because the schemes tested would have been possible to roll out nationwide in the countries concerned. The difference between those two contexts and those of countries with more developed economies is that in Namibia, apart from a universal old age pension, there was almost no income tax or benefits system to which the Basic Incomes would have had to relate; and in India, because the welfare system consists of a vast number of discrete services, subsidies, employment guarantees, and so on, it was sufficiently easy to replicate in the pilot communities many of the changes that would have to be made in existing programmes if a Basic Income were to implemented nationwide or across an individual state. In both cases, the levels of the Basic Incomes paid would have been sufficiently low in relation to the country's Gross Domestic Product to enable implementation nationwide to be financially feasible (Haarmann et al., 2019; Davala, 2019). In a country with a more developed economy, in which there will generally be complicated tax and benefits systems to which the entire population has to relate, changes in those systems would be required if Basic Incomes were to be paid to every member of the population, and it would be impossible, or at least extremely difficult, to replicate those changes for a single community. Hence the complete absence of genuine Basic Income pilot projects in countries with more developed economies.

This means that if any kind of pilot project is to be carried out for a particular community then the scheme tested would have to be as close as possible to a scheme that could be rolled out nationwide, and that the differences between the pilot project scheme and a feasible nationwide scheme would have to be taken into account if the results of the pilot project were to be used to predict the effects of a nationwide Basic Income scheme. The further from a feasible nationwide scheme the pilot project scheme diverged, the less useful would be the pilot project results in predicting the effects of a nationwide Basic Income, and this would have to be stated.

The report *Piloting a Basic Income in Wales* requires that no participant in the pilot project should be worse off than they would have been if they had not taken part. This would constitute an additional distancing of the pilot project scheme from a feasible national Basic Income scheme, because any financially feasible nationwide Basic Income scheme would impose net disposable income losses on some households.

In Wales, the possibilities for a single-community pilot project would be much the same as for the under-25 and pre-retirement pilot projects: that is, Income Tax and National Insurance Contribution rates would not change, but it would be possible to alter the Income Tax Personal Allowance and the National Insurance Contributions Primary Earnings Threshold for the pilot community: although we would have to recognize that this would be administratively more difficult than doing that for every adult under the age of 25 or every adult between their sixtieth and sixty-fifth birthdays. Those two projects would require Her Majesty's Revenue and Customs (HMRC) and Department for Work and Pensions (DWP) co-operation. A single-community pilot project would require significant administrative involvement on the part of the two departments.

Let us suppose that it proves administratively possible to reduce to zero the Income Tax Personal Allowance and the National Insurance Contributions Primary Earnings Threshold for every resident of Wrexham; that Basic Incomes would be paid at the same levels as those envisaged for the nationwide Basic Income scheme described at the beginning of this report;

and that no other changes would be made to the tax or benefits systems, except that a household's Basic Incomes would be taken into account in the same way as other income when means-tested benefits were calculated.

Microsimulation research results (which have to assume that the population of Wrexham is representative of the population of Wales) are as follows:

*Table 40: The illustrative Basic Income scheme for Wrexham*

<b>Basic Income levels, tax rates, and net cost of scheme</b>	
Citizen's Pension per week (existing state pensions remain in payment)	£35
Working age adult Basic Income per week (25 to 65 years old)	£60
Young adult Basic Income per week (20 to 24 years old)	£50
Education age Basic Income per week (16 to 19 years old, but not young people still in full-time education, and whose families therefore receive Child Benefit)	£25
(No increase in Child Benefit)	[0]
Income Tax, basic rate (on £0 – £50,270)	20%
Income Tax, higher rate (on £50,271 – £150,000)	40%
Income Tax, top rate (on £150,000 – )	45%
Net cost of scheme for Wrexham	£84m p.a.

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

If this scheme were to be rolled out nationwide, UKMOD gives an annual net cost of £1.45bn per annum. The population of Wales is 3,170,000 and the population of Wrexham 65,692, so the net cost for Wrexham would be £30.13m per annum. This is 0.039 per cent of Welsh GDP, so the pilot project would be financially feasible. This does not mean that the Basic Income scheme would be feasible to implement nationwide. It would not be.

Table 41 shows how many households would suffer disposable income losses of over 10% and over 5%, and how many households in the lowest equivalised disposable income quintile<sup>3</sup> would suffer losses of over 10% and over 5%.

<sup>3</sup> The OECD equivalisation method is used, which allocates 1 for the first adult in a household, 0.5 for a second person aged 14 or over, and 0.3 for children under 14 years old. The figures are added, and the household disposable income divided by the total to generate the equivalised income. Households are then ordered by their equivalised incomes and the losses experienced by households with the lowest 20% of equivalised disposable incomes are evaluated.

Table 41: Household disposable income losses

<b>Household disposable income losses over 10% and 5% for all households and for the lowest equivalised disposable income quintile</b> (figures for the lowest equivalised original income quintile are given in brackets)	
Proportion of all households experiencing losses of over 5% at the point of implementation	2.69%
Proportion of all households experiencing losses of over 10% at the point of implementation	0.38%
Proportion of households in the lowest equivalised disposable (original) income quintile experiencing losses of over 5% at the point of implementation	5.12% (2.05%)
Proportion of households in the lowest equivalised disposable (original) income quintile experiencing losses of over 10% at the point of implementation	1.04% (0.40%)

Source: author's own calculations from the output files generated by UKMOD version A2.51+.

The pilot project scheme would not entirely fulfil the requirement that no participants should suffer household disposable income losses. The problem is that to provide higher Basic Incomes, or not to reduce the Income Tax Personal Allowance and the National Insurance Contributions Primary Earnings Threshold to zero, would increase the net cost of the scheme, which would take the scheme even further from being the kind of Basic Income scheme that could be implemented nationwide, thus compromising even further the ability to regard the experiment as a pilot project.

Table 42 shows the changes in the numbers of households receiving means-tested benefits, and also the numbers of households brought within striking distance of coming off them.

Table 42: Reductions in numbers claiming means-tested benefits or within striking distance of coming off them, and the reductions in the total costs of the benefits and the average value of claims

<b>Numbers of households claiming means-tested benefits or within striking distance of coming off them</b>	<b>The existing scheme in 2021-22</b>	<b>The Basic Income scheme</b>
Percentage of households claiming any means-tested benefits	30.88%	30.53%
Percentage of households claiming more than £100 per month in means-tested benefits	27.72%	25.13%
Percentage of households claiming more than £200 per month in means-tested benefits	25.97%	21.31%
<b>Reductions in total cost and average value of claims for means-tested benefits</b>	<b>Reduction in total cost</b>	<b>Reduction in average value of claim</b>
All means-tested benefits	28.18%	27.34%

Source: author's own calculations from the output files generated by UKMOD version A2.51

Tables 43 to 46 show reductions in inequality and in poverty rates.

*Table 43: Poverty indices for 2021-22 for the Wrexham Basic Income scheme (based on incomes before housing costs)*

<b>Poverty headcount by population group</b>	<b>Poverty rates for current system</b>	<b>Poverty rates for Basic Income scheme</b>	<b>Difference in poverty rates</b>	<b>Percentage reduction</b>
All	17.14%	15.44%	-1.69pp	9.92%
Children	20.90%	19.22%	-1.68pp	8.04%
Adults	15.75%	14.40%	-1.35pp	8.57%
Adults Economically Active	7.18%	6.30%	-0.88pp	12.26%
Elderly	17.45%	14.74%	-2.71pp	15.53%
Fixed Poverty Line	£298.91			

Source: UKMOD statistics presenter

*Table 44: Poverty indices for 2021-22 for the Wrexham Basic Income scheme (based on incomes after housing costs)*

<b>Poverty headcount by population group</b>	<b>Poverty rates for current system</b>	<b>Poverty rates for Basic Income scheme</b>	<b>Difference in poverty rates</b>	<b>Percentage reduction</b>
All	21.46%	19.29%	-2.17pp	10.11%
Children	26.53%	24.84%	-1.69pp	6.37%
Adults	20.17%	17.56%	-2.61pp	12.94%
Adults Economically Active	10.10%	8.52%	-1.57pp	15.64%
Elderly	20.16%	18.81%	-1.35pp	6.70%
Fixed Poverty Line	£269.87			

Source: UKMOD statistics presenter

*Table 45: Inequality indices for 2021-22 household disposable incomes for the Wrexham Basic Income scheme (based on incomes before housing costs)*

<b>Gini coefficient for current system</b>	<b>Gini coefficient for Basic Income scheme</b>	<b>Difference between the two Gini coefficients</b>	<b>S80/S20 ratio for current system</b>	<b>S80/S20 ratio for Basic Income scheme</b>	<b>Difference between the two S80/S20 ratios</b>
0.3078	0.2970	-0.0108	4.9695	4.5245	-0.4450

Source: UKMOD statistics presenter

*Table 46: Inequality indices for 2021-22 household disposable incomes for the Wrexham Basic Income scheme (based on incomes after housing costs)*

<b>Gini coefficient for current system</b>	<b>Gini coefficient for Basic Income scheme</b>	<b>Difference between the two Gini coefficients</b>	<b>S80/S20 ratio for current system</b>	<b>S80/S20 ratio for Basic Income scheme</b>	<b>Difference between the two S80/S20 ratios</b>
0.3470	0.3362	-0.0108	6.5383	5.9411	-0.5972

Source: UKMOD statistics presenter

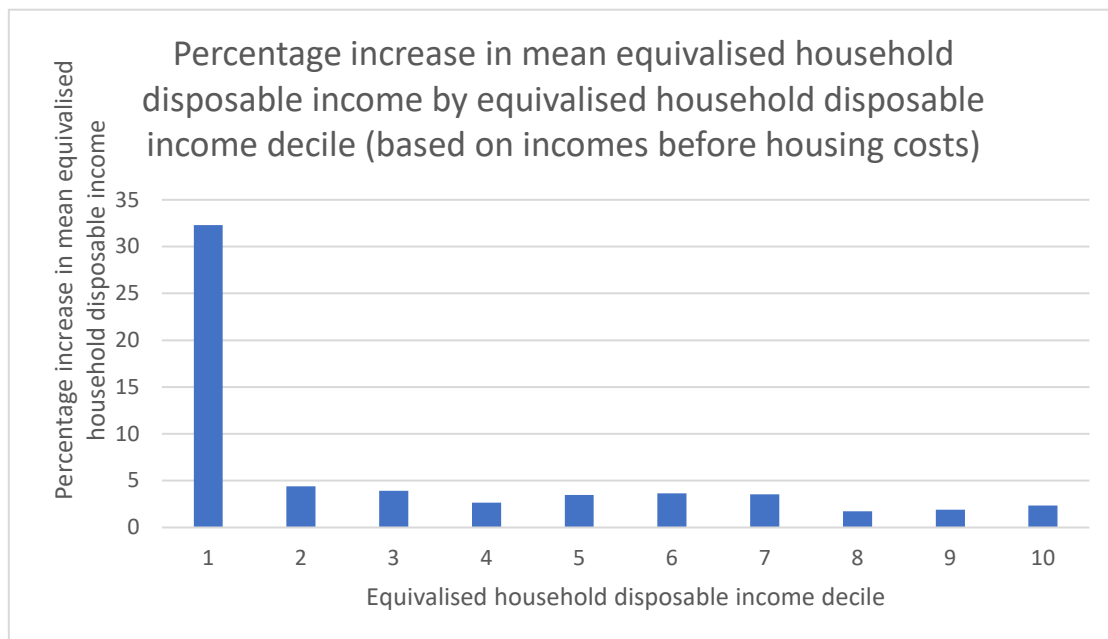
Tables 47 and 48, and figures 11 and 12, show the redistribution patterns that would result from the implementation of the Basic Income scheme, both in relation to incomes before housing costs and incomes after housing costs.

*Table 47: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes before housing costs)*

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	154.73	204.70	49.96	32.29%
Decile 2	286.11	298.68	12.57	4.39%
Decile 3	350.93	364.71	13.78	3.93%
Decile 4	405.72	416.47	10.75	2.65%
Decile 5	464.69	480.86	16.17	3.48%
Decile 6	530.52	549.81	19.29	3.64%
Decile 7	605.37	626.90	21.53	3.56%
Decile 8	701.71	713.87	12.15	1.73%
Decile 9	866.03	882.60	16.57	1.91%
Decile 10	1,527.89	1,385.14	31.94	2.36%

Source: UKMOD statistics presenter

*Figure 11*



Source: Table created by the author from figures generated by the UKMOD statistics presenter

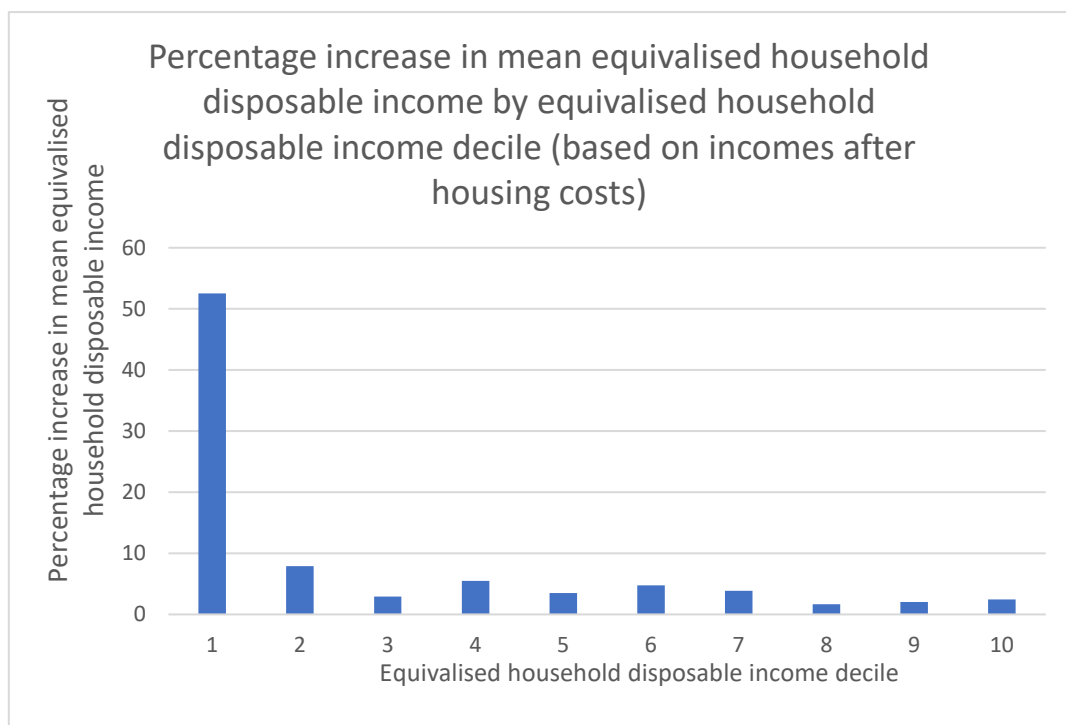


Table 48: Percentage increase in mean equivalised household disposable income by equivalised household disposable income decile (based on incomes after housing costs)

	<b>Current tax and benefits system, £ per week</b>	<b>Basic Income scheme, £ per week</b>	<b>Difference, £ per week</b>	<b>Percentage increase</b>
Decile 1	78.17	119.25	41.08	52.55%
Decile 2	223.85	241.55	17.7	7.91%
Decile 3	290.2	298.66	8.46	2.92%
Decile 4	339.79	358.51	18.72	5.51%
Decile 5	407.79	422.03	14.24	3.49%
Decile 6	486.1	509.16	23.07	4.75%
Decile 7	561.9	583.48	21.58	3.84%
Decile 8	666.7	677.78	11.08	1.66%
Decile 9	812.39	828.87	16.47	2.03%
Decile 10	1,298.10	1,330.16	32.06	2.47%

Source: UKMOD statistics presenter

Figure 12



Source: Table created by the author from figures generated by the UKMOD statistics presenter

Residents of Wrexham would find the Basic Income scheme described here to be highly beneficial. It would provide a substantial layer of secure income for every household; it would reduce inequality and every poverty index; and it would remove a significant number of households from means-testing, considerably reduce all means-tested benefits claims, and bring a lot of households within striking distance of coming off means-tested benefits. The number of household disposable income losses would be small enough to enable the small amount of transitional relief that would be required to ensure that the ‘nobody worse off’ criterion could be fulfilled to be relatively easy to administer. The net cost of a two year pilot project in Wrexham would be £60m: almost half the cost of the experiment proposed in *Piloting a Basic Income in Wales*, and the size of the pilot community would be thirteen times the size, and so considerably more significant statistically.

The scheme proposed here for Wrexham would be far closer to a feasible nationwide Basic Income scheme than the experiment proposed in *Piloting a Basic Income in Wales*, and so would have a considerably greater claim to be regarded as a Basic Income pilot project than that report’s proposal.

## 15. Conclusions

The Basic Income scheme proposed in the chapter ‘Pilot Design’ in the report *Piloting a Basic Income in Wales* would not be feasible to implement for the whole population of Wales, so the proposed experiment should not be called a Basic Income pilot project. The provision of unconditional incomes for care-leavers suggested in a previous chapter could be a useful experiment, but without further details it is difficult to evaluate the idea. It would be possible for it to have the same experimental status as the recent experiment in Finland.

The Basic Income scheme proposed for Wales at the beginning of this response to *Piloting a Basic Income in Wales* would be feasible to implement, and would provide every household in Wales with substantial levels of secure income: a vital requirement both today and in any conceivable future economic and social context.

Schemes that would mirror elements of that Basic Income scheme, or would be close to doing so – an enhanced Child Benefit, a Citizen’s Pension, a Basic Income for under twenty-fives, and a pre-retirement Basic Income – would also be feasible to implement and would benefit the recipients envisaged. Such Basic Incomes for particular demographic groups would also function as pilot projects for schemes for broader demographic groups, and also for the complete Basic Income scheme discussed at the beginning of this report.

The pilot project proposed here for Wrexham would probably be as close as it would be possible to get to a genuine Basic Income pilot project in a country with a more developed economy.

If further research is to be carried out on a Basic Income scheme for Wales, and on possible pilot projects for such a scheme, then it is in relation to the projects outlined in this report that research effort should be expended, and not in relation to the project described in the chapter ‘Pilot design’ in *Piloting a Basic Income in Wales*.

The Welsh Government, Autonomy, and the Basic Income Conversation, are to be commended for their contribution to the important debate about the possibility of a Basic Income pilot project in Wales. This report has been published in the hope that it will make a similarly useful contribution to that debate.

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