



Jersey Community
Relations Trust

Finding the right balance

Independent assessment of the socioeconomic
impact of a universal basic income in Jersey

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advisory





Finding the right balance

A report for the Jersey Community Relations Trust

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Disclaimer

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Contents

Foreword	5
Executive summary	7
What is a universal basic income?	9
A place for universal basic income in Jersey	17
Jersey's tax and benefits system today	25
Simulating a universal basic income in Jersey	30
Refreshing the social contract	39

Foreword by Jersey Community Relations Trust

While we await further details of the new Government's longer-term priorities, reducing inequality and improving inclusion across the island look set to be significant areas of focus.

These values were included in several of the campaign manifestos of members of the new Government and are implicit in many of the action points stated in its 100 Day Plan.

We know that an ageing population, rapidly rising costs of living and a housing affordability crisis that is only just beginning to bite are significant and challenging priorities for our island—and that equity and inclusion must lie at the heart of our solutions to them. If left ineffectively addressed, these issues will quickly have a lasting impact on our economy and society.

So, what does 'equality and inclusion' practically look like for our community, especially its poorest members? And, relatedly, what are Government's priorities for reducing disadvantage among our population? Based on the research set out in this report, and that contained in our Social Mobility and Education report, Jersey Community Relations Trust believes these priorities should be:

1. Reducing pensioner poverty in an ageing population;
2. Improving living standards and ensuring a humane experience of living and working in Jersey for our middle to lowest earning migrant workers, including temporary and seasonal workers on whom much of our economy is dependent; and
3. Improving equality of opportunity for all children and young people in our education system, in a world in which future skills requirements look very different.



 **Jersey Community Relations Trust**



Equality



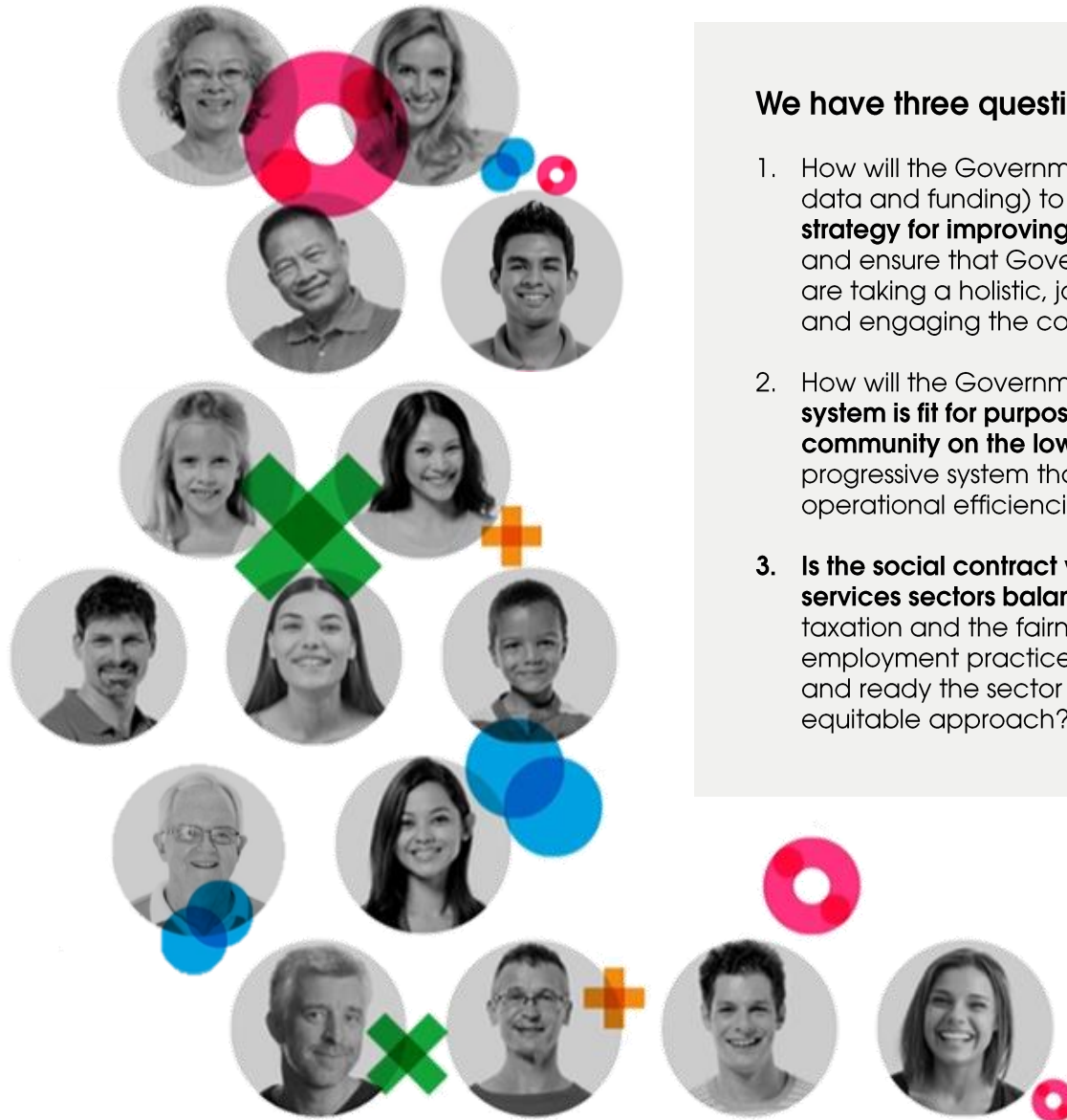
Inclusivity



Diversity



Unity



We have three questions for government:

1. How will the Government guarantee that it has the resources (people, data and funding) to define a **realistic vision and evidenced-based strategy for improving equality and inclusion** in Jersey in the long term; and ensure that Government Ministries and civil service departments are taking a holistic, joined up approach to defining, implementing and engaging the community around its strategy?
2. How will the Government **determine if the current tax and welfare system is fit for purpose for those individuals and households of our community on the lowest incomes**, when it comes to supporting a more progressive system that limits disadvantage and in terms of creating operational efficiencies?
3. **Is the social contract with Jersey's finance and other professional services sectors balanced and fit for purpose** both in terms of corporate taxation and the fairness, and in some cases humaneness, of its employment practices? If not, what would we need to do to engage and ready the sector for a shift in this social contract towards a more equitable approach?

Jersey Community Relations
Trust Committee

Executive summary

Pragmatix Advisory has been commissioned by the Jersey Community Relations Trust to research and report on the potential impact, merits and demerits of a universal basic income in Jersey.

Prior to undertaking this research, neither Pragmatix Advisory nor Jersey Community Relations Trust held any preconceived views as to what the conclusion to this report would be.

This report is designed to prompt discussion regarding the prospects of introducing a universal basic income in Jersey.

It does not aim to provide all the answers, but simply to help determine whether a universal basic income for Jersey is worth further consideration. With this in mind, we have included recommendations for further research, deliberation and debate throughout the report.

The idea of a universal basic income is becoming increasingly popular amongst policy-makers, academics and the general public alike. Early experiments, particularly in North America and Europe look promising, but there are limited real-world applications to learn from.

We found that there may be an opportunity to use a universal basic income to remedy several challenges on the island.

This includes reducing inequality, helping low-middle income households feeling the squeeze of the cost-of-living crisis and improving quality of life across the island. It could also offer a means to simplify the current tax and welfare system, leading to potential administrative cost savings and a policy that better incentivises work at all income levels.

But the viability of a universal basic income in Jersey will depend most critically on its cost, and by extension on the political appetite to adjust taxation to ensure the policy remains fiscally neutral to avoid being inflationary. We have developed a series of indicative scenarios to explore what a universal basic income might look like in practice.

Our central scenario, based primarily on the policy judgements built into the current system—including basic income rates in line with payments currently made to households entirely dependent on income support—would require a personal tax rate of 42 per cent. This could be reduced to 39 per cent if corporate tax receipts are doubled or 36 per cent if the basic income goes only to adults.

While some increase in tax rates might be viewed as an acceptable price to pay for the social and economic benefits promised by a basic income, a Jersey-wide universal scheme is likely to be too expensive.

However, there remains much that can be learned from the rationale for and trials of universal basic incomes in other economies when it comes to Jersey’s tax and benefits regime. After covid and facing widespread hikes in living costs, it is time for Jersey to reconsider its social and economic priorities.

There should be an active choice of the appropriate balance between growth and distribution on the island.

If those in employment are paid wages or salaries that are sufficient to afford a decent standard of living on the island and seemingly ever-rising housing costs are brought under control, then the benefits and taxation regimes can be simplified to focus on incentivising work whilst providing support to those unable to do so.

This would allow Jersey to take advantage of a well-established social safety net guaranteed by a basic income, without the hefty price tag associated with making the scheme universal.

What is a universal basic income?

A universal basic income is a regular payment from the state to every citizen or resident, regardless of their circumstances. This concept is becoming increasingly popular amongst policy-makers, academics and the general public alike with proponents suggesting a host of social and fiscal benefits. But with limited real-world application to date, it is not yet well understood how well it works in practice.

The idea of a universal basic income is popular

At first sight, a universal basic income is a remarkably simple policy: a regular payment from the state to every citizen or resident, regardless of their circumstances.

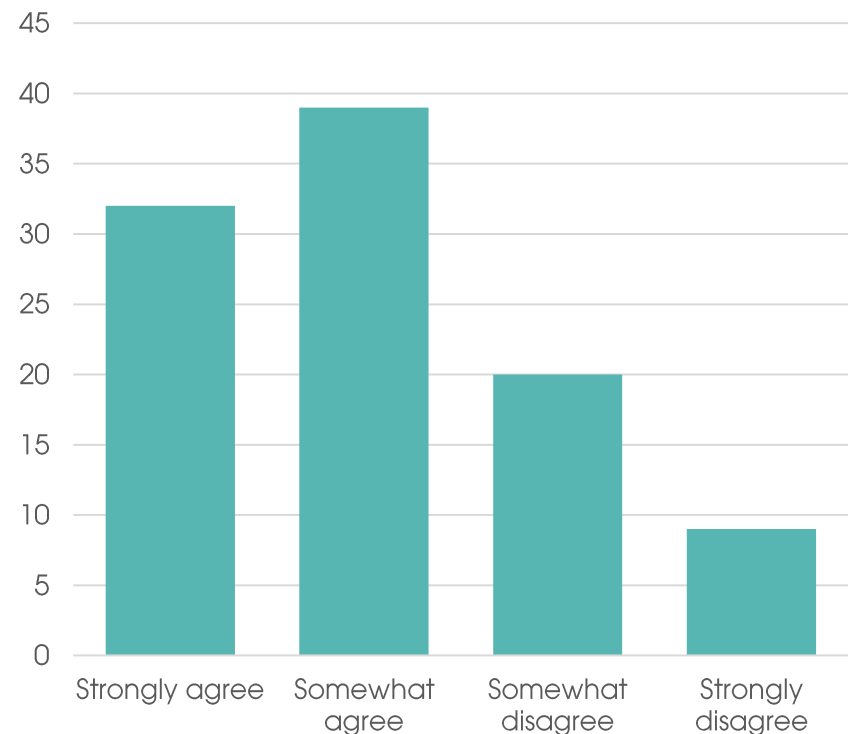
In its purest form, it would represent a radical simplification of both the social security and tax systems and has the potential to provide a host of other benefits.

Interest in universal basic income has been growing recently and is linked to debate about the future world of work, especially greater job insecurity and the impact on technology on employment, and more recently in the context of the cost-of-living crisis.

More than two thirds of Europeans support the introduction of a universal basic income. This support is equally strong across age groups: 71 per cent of Europeans aged sixteen to 29 strongly or somewhat support the introduction of a basic income, while 71 per cent of those aged 30 to 49 and 70 per cent of those aged 50 to 69 do.

Polling in the United Kingdom has revealed a similar result, with the majority of people reporting to Gallup in 2019 a willingness to pay higher taxes to fund a universal basic income, as would be required. A 2020 Demos poll found that adults in the United Kingdom supported by a 40-point margin "raising Income Tax on earnings over £50,000 per year by five pence in the pound."

To what extent do you agree or disagree that EU member states should pay all citizens a basic income, regardless of their employment status?
European Union and the United Kingdom, March 2020, per cent of respondents (n=12,859)



There are several potential pros and cons of a universal basic income policy.

With a diverse set of potential advantages and disadvantages, the idea has been promoted by voices on both the left and right sides of the political spectrum.

The relative significance of these advantages and disadvantages is likely to vary depending on both the context and values of the state in which the policy is deployed.

The system is too costly, requiring an increase in government revenues for the policy to remain fiscally neutral.

Potentially reduces labour force participation and/or productivity rates if basic needs are already met.

Requires a shift away from established principles of contribution, targeting and lifecycle distribution in the existing social security system.

Targets need inefficiently when money spent on a universal basic income could be more effectively spent elsewhere.

Rewards valuable non-wage labour such as caring and domestic work, helping to support vulnerable and disadvantaged groups.

Simplifies the tax and benefits system thereby reducing administrative costs associated with often labour-intensive means-testing processes.

Removes the high withdrawal rates that claimants of means-tested benefits can face if they start working, thus incentivizing greater labour force participation for these households.

Provides workers with the freedom to choose other options, take entrepreneurial risks and bargain from a position of power with employers.

Offers a quickly accessible infrastructure for comprehensive financial support during crises, such as the covid pandemic.

Disadvantages

Advantages

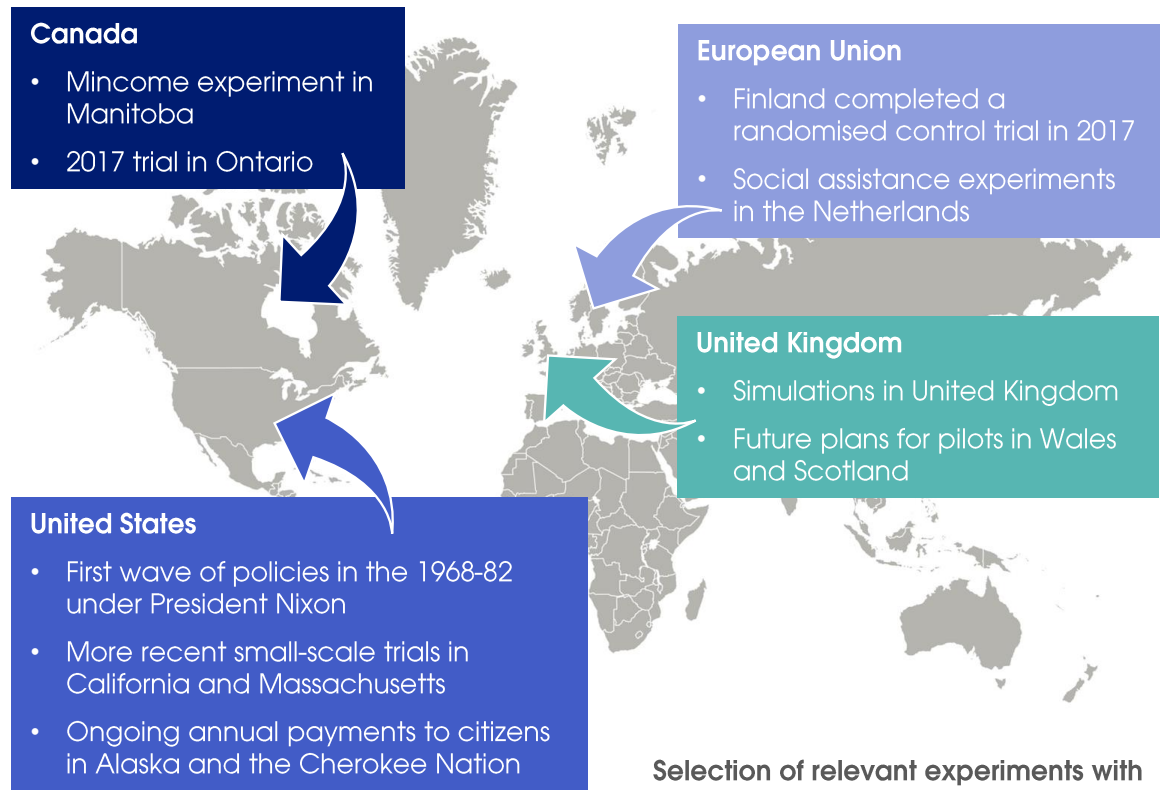
Empirical evidence is limited, but so far positive

Only a small number of universal basic income studies have been conducted around the world, but their results have generally been positive.

Many of these studies have been concentrated in developing countries, particularly in Africa and Asia with the aim of eradicating absolute poverty, often funded through foreign aid or development bank monies.

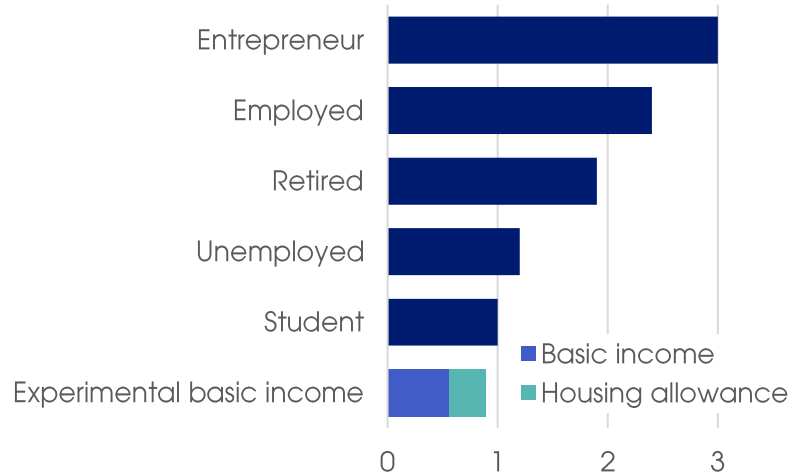
Finland remains the only country to have completed a nationwide randomised control trial. Annual basic incomes have also been provided in Iran, Alaska and the Cherokee Nation, however, the sums of money paid annually and relatively small amounts.

In the remainder of this section, we take a closer look at some of these trials—their structure and their experimental findings. In each case, it was a lack of funding availability and/or political support, as opposed to poor study results, that prevented the policy from being more widely adopted on a permanent basis.



Selection of relevant experiments with universal basic income policy around the world
North America and Europe, 1960-1920

Average disposable income by household type
Finland, 2017, € thousands per month



Trial participants completed three to nine per cent more working days per year than the control group.

Motivation and ability to work also both improved slightly. There was a greater increase in employment for people with children and individuals whose first language wasn't Finnish or Swedish.

Participants experienced improved well-being, including life satisfaction and self-esteem. Life satisfaction increased so much as to close gap between unemployed and employed people.

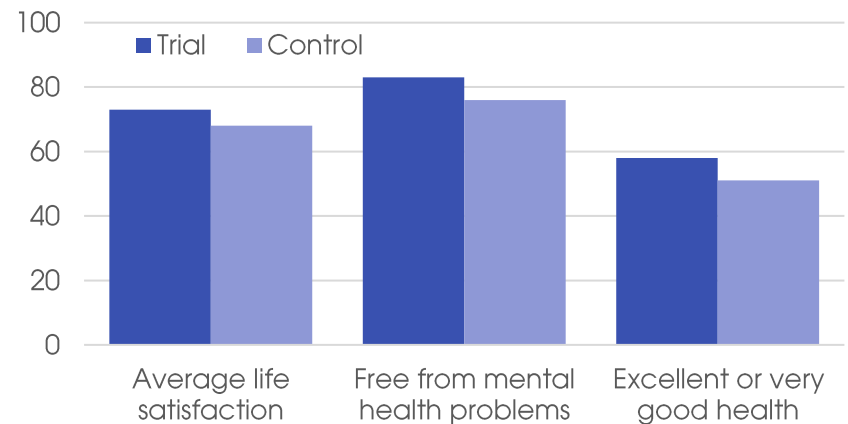
There was increased trust in institutions, improved mental and physical health and less stress around paying bills and affording food.

A basic income trial was run in Finland for 2,000 unemployed people between 2017 and 2018.

The programme was run for two years, whereby participants aged between 25 and 58 years old received €560 per month. They were measured against a control group of 173,000 people who received the standard unemployment benefit.

The trial tested whether it increased employment among unemployed people compared to the existing benefit. However, changes to unemployment benefits were also introduced in 2018 which may have skewed the final months' results.

Outcomes of the trial on health and wellbeing for the trial participants and control group
Finland, 2018, per cent of group



Universal basic income first gained prominent policy attention in the 1960s in the United States.

A negative income tax, which functions much like a universal basic income, was proposed by President Richard Nixon as a solution to the poverty and job losses sparked by widespread industrial change in the second half of the twentieth century.

Between 1968 and 1982, the United States Government funded four separate experiments across six states at a cost of more than £525 million in today's money. The purpose of these experiments was to test the effect of the policy on the supply of labour among its recipients.

Nixon later changed his mind regarding the pursuit of such a policy idea, but his initial advocacy inspired more recent studies.

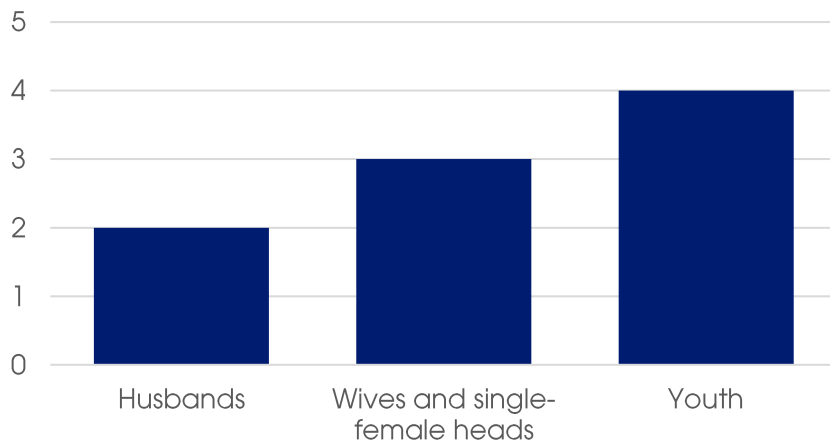
- {
New Jersey Experiment
 - 1968-72
 - 1,357 families
 - Urban areas of New Jersey and Pennsylvania

- {
Rural Experiment
 - 1969-73
 - 809 families
 - Rural areas of Iowa and North Carolina

- {
Gary Experiment
 - 1971-74
 - 1,780 families
 - City of Gary, Indiana

- {
Seattle-Denver Experiment,
 - 1971-82
 - 4,800 families
 - Cities of Seattle and Denver

Reduction in labour supply per person
United States, 1968-1982, weeks per year

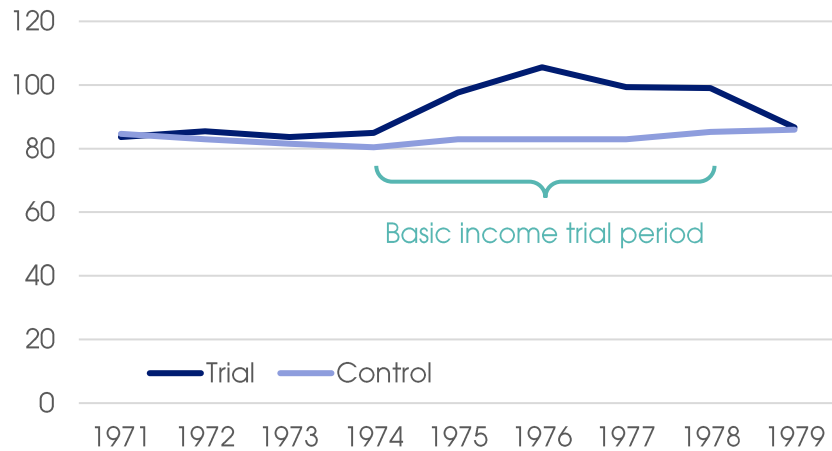


Reductions in labour supply were substantial, but not obviously detrimental to the economy or society.

The results were found to be remarkably consistent across the experiments. With married men reducing their labour supply by the equivalent of two weeks of full-time employment, wives and female heads of households by three weeks, and young workers by four weeks.

While the experiment showed recipients worked fewer hours, commentators have argued that this allowed for higher long-term productivity, greater level of artistic and cultural development, and even more time spent at home with children bringing clear benefits.

Proportion of students enrolling in Grade 12
Manitoba, per cent of previous Grade 11 enrolment



Results from this trial found that family working hours decreased slightly, but welfare indicators improved.

Among all the participants, only two key groups were found to be meaningfully discouraged from working by their receipt of Mincome. These were new mothers who took more time off on maternity leave, and teenage boys, who, instead of entering the workforce at an early age, decided to complete high school. Moreover, students who belonged to families taking part in the experiment received higher test scores, had lower dropout rates and were more likely to continue education into adulthood.

More recent research has also found evidence to suggest a significant reduction in hospitalisations, specifically in case of mental health diagnoses.

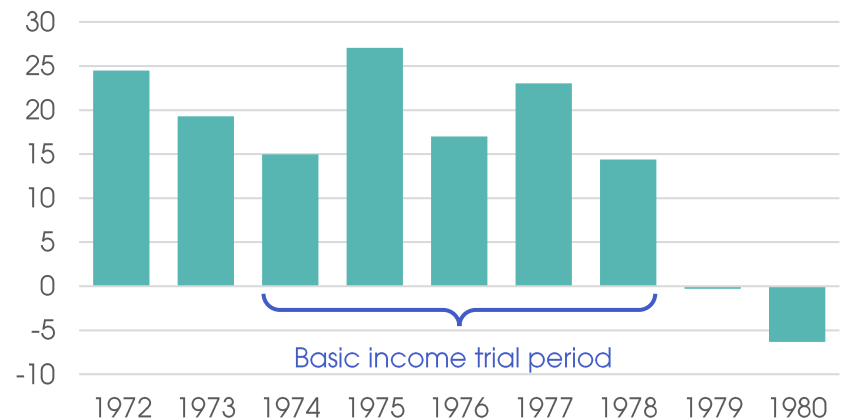
Between 1974 and 1978, the Canadian Government trialed ‘Mincome’: an experimental basic income in Manitoba.

The experiment was administered in the cities of Dauphin, Winnipeg and other rural areas in Manitoba to examine the potential of using a guaranteed annual income to reduce poverty and stimulate economic growth.

Depending on which random trial group they were in, participating low-income households were guaranteed an income of up to £19,000 in today’s money, with a tax rate in some cases of 35 per cent.

However, the experiment was discontinued after a change in government and the budget ran out amidst austerity pressure.

Difference in hospital separation rates in trial site versus control site
Manitoba, difference in hospitalisations per thousand residents





Simulated impacts of a universal basic income in Wales
Wales, 2021

A recent simulation found that a modest universal basic income could reduce poverty in Wales.

It modelled the impacts on households that would result from providing a taxable basic income equivalent to £2,080 per year to children, £3,120 per year to working age adults, and £9,100 per year to pensioners.

And found that the poverty rate could be more than halved, from 23 per cent to eleven per cent. Poverty among both children and pensioners could be reduced by nearly two-thirds. With 80 per cent of Wales' population likely to see an increase in their income, this would also lead to greater economic equality and a decrease in the Gini coefficient* from 0.33 to 0.25.

But this scheme would require substantial changes to the taxation system to ensure fiscal neutrality.

At the basic incomes described above, the scheme would have a gross financial cost of £13 billion, and a net cost of £6.8 billion once the now redundant benefits and the state pension are removed. To fund the remaining gap, the researchers proposed widespread increases to personal income tax which saw all income over £25,000, £42,500 and £120,000 taxed at 36, 45 and 55 per cent respectively. This was in addition to large increases in national insurance contributions and a new wealth tax.

Despite these concerns over costs, a pilot to provide monthly payments of £1,600 (£19,200 per year) to around 500 young people leaving care has been commissioned. The pilot is set to run for two years with results due thereafter.

Recommendations

1. Ensure that the advantages and disadvantages presented by proponents and opponents of universal basic income policies are considered in context.
2. Remember that there are several different and often competing models of universal basic income. Changes to the magnitude and/or eligibility requirements for the basic income might have improved the policy in practice.
3. Recognise that this is a policy that will take experimentation to determine its impacts in different cultures and contexts.

Note: * Gini coefficients measure the extent to which the income distribution in an economy deviates from perfect equality, with higher numbers indicating less equality. Source: Future Generations Commissioner for Wales and Autonomy

A place for universal basic income in Jersey

While international experiences can and should be used to provide a general guide for the potential of a universal basic income in Jersey, the success of any such policy will depend importantly on the Jersey-specific context and design.

Jersey is a prosperous place, that produces great wealth which is partially redistributed. There is an opportunity to use a universal basic income to remedy several challenges in Jersey including reducing inequality, helping low-middle income households feeling the squeeze of the cost-of-living crisis and improving quality of life across the island.

UBI could support economic and social reform

At a high level, a universal basic income aligns with the economic and political strategy of Jersey's previous government.

And these themes are likely to not just remain relevant but intensify in coming years as Jersey recovers from the covid pandemic lockdowns and grapples with the ongoing cost-of-living crisis and new world challenges.

In 2020, Jersey's Economic Council released a report on achieving sustainable economic growth on the island. This report consists of five themes which are deemed to be the most significant drivers of Jersey's future economic prosperity. Two themes relate to innovation and opportunities for residents to take risks and reskill.

A universal basic income might offer the potential to achieve some of these goals by providing a safety net to encourage more entrepreneurial activity and further educational attainment. There is also evidence to suggest that a universal basic income has the potential to improve quality of life more broadly.

Reducing income inequality and improving living standards has been a political priority for Jersey according the Plan adopted by the previous government. If this is to remain a priority going forwards, a universal basic income could help to achieve this.

"Jersey should stimulate growth by encouraging a more vibrant entrepreneurial culture and enhancing local innovation"

"For Jersey's economy to flourish, the island needs regeneration from an infrastructure and quality of life perspective"

"Unless Jersey innovates and aspires to the highest levels in education and skills development across our entire population, our economy will not prosper"

Strategic themes highlighted by the Economic Council in its independent report on prosperity
Jersey, 2020

Few disenfranchised workers but poverty exists

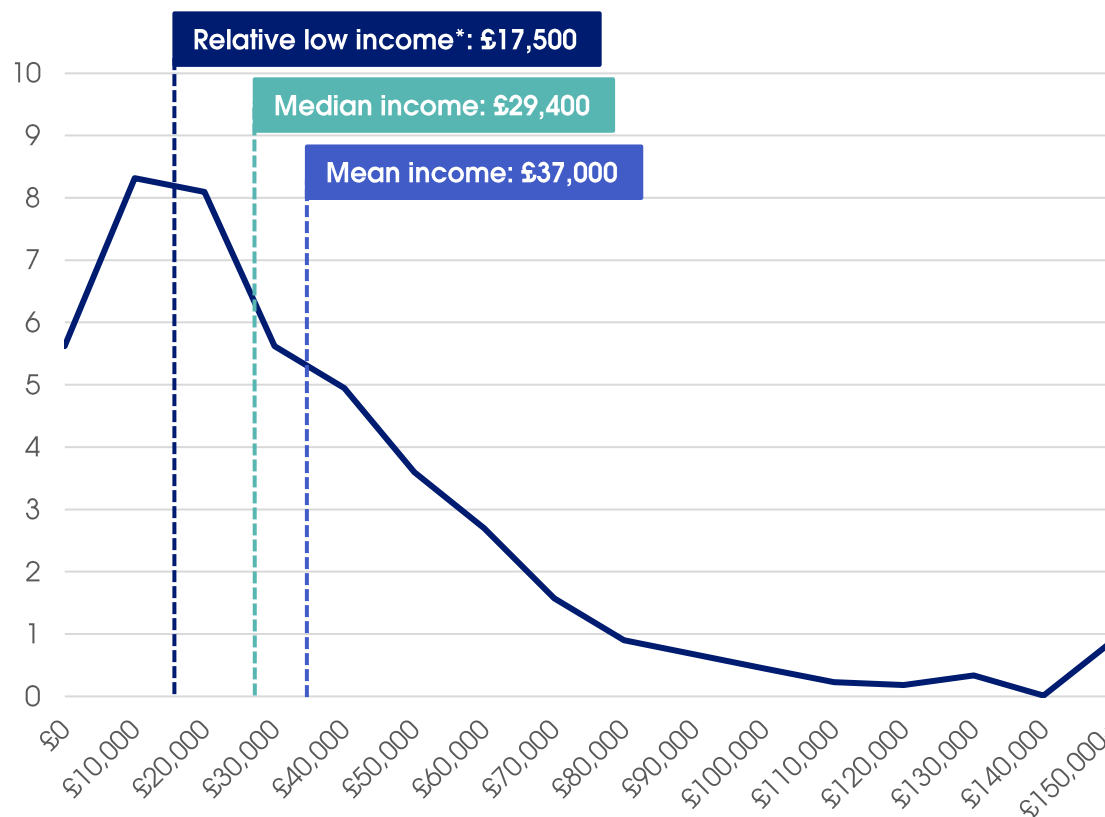
Jersey is a prosperous place, with high levels of employment, but there are households struggling to make ends meet.

Gross average earnings for a full-time equivalent employee stand slightly above the average for Organisation for Economic Co-operation and Development countries. However, this wealth is only redistributed up to a point, and significant inequality persists despite a mature social security scheme.

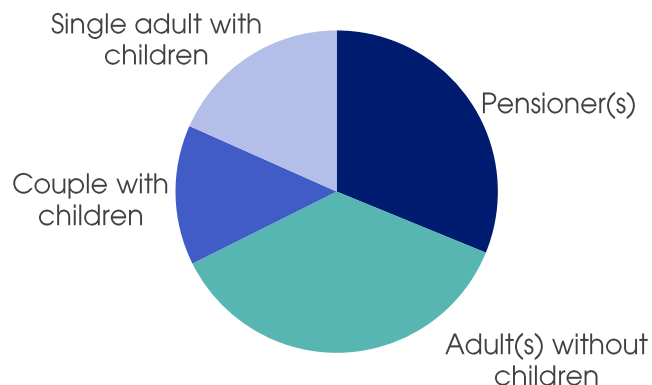
In early 2020, after taxes, benefits and housing costs, more than a quarter of all households had an income below 60 per cent of the median equivalised household income. This threshold is defined in official statistics as 'relative low income,' and is widely used in European economies including Jersey as a measure of poverty.

In early 2020, the relative low income threshold was £480 per week before housing costs and £410 per week after housing costs. Households below this threshold are much more likely to experience material deprivation.

Distribution of net household income after housing costs
Jersey, 2014/15, thousands of households



Number of income support claims by household type
Jersey, 2019



Jersey has an extensive system of social benefits, including social security, health insurance and income support.

Income support is a means-tested benefit available to individuals who have a low household income, pass a residence test, and are working, looking for work, or exempt from looking for work. The benefit supports households to pay for housing, health needs, childcare and living costs. At the end of 2019, there were 5,600 income support claims being paid, supporting more than 7,000 adults and 3,000 children.

Many residents are dependent on this welfare. Across Jersey, benefits offer four pence of every £1 household income. For one-parent families with dependent children, income support and other benefits made up 37 per cent of their household income.

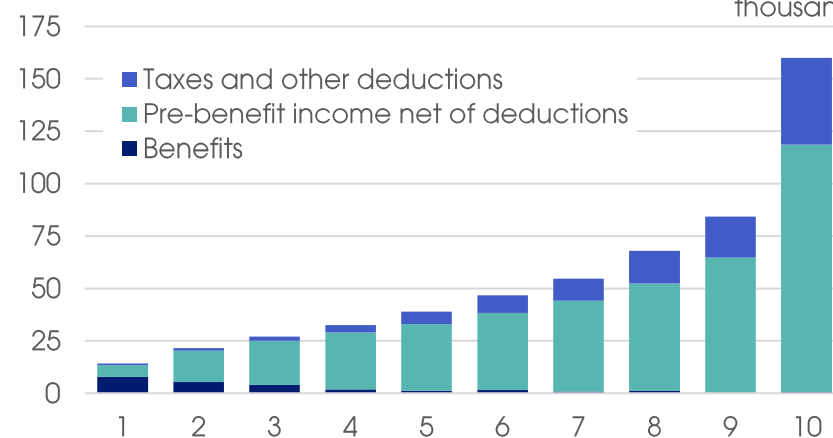
The benefits and tax system improve income inequality, but inequality persists.

Benefits provide more than half of the earnings received by households with incomes in the lowest decile take home. At the same time, households at the upper end of the income spectrum pay more in taxes.

One of the priorities of the previous government was to reduce inequality in Jersey. Before benefits and other deductions were taken into account, incomes in the highest decile were nearly eight times greater than those in the lowest decile. This is reduced to five times after benefits, and to just four times after benefits and other deductions are accounted for.

Mean annual gross household income by decile before housing costs

Jersey, equivalised households*, 2014/15, £ thousands



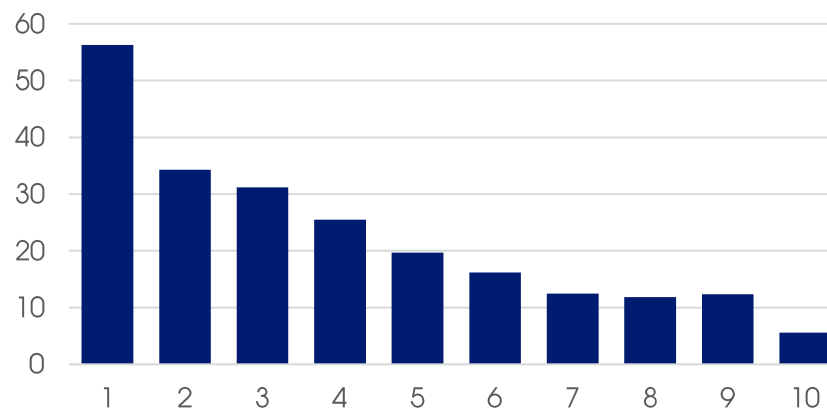
Note: * Household incomes have been adjusted for their size and makeup such that they represent the equivalent household income of an adult couple. Source: Jersey Household Income Distribution 2014/15

But housing costs almost remove the improvement in equality provided by the welfare system.

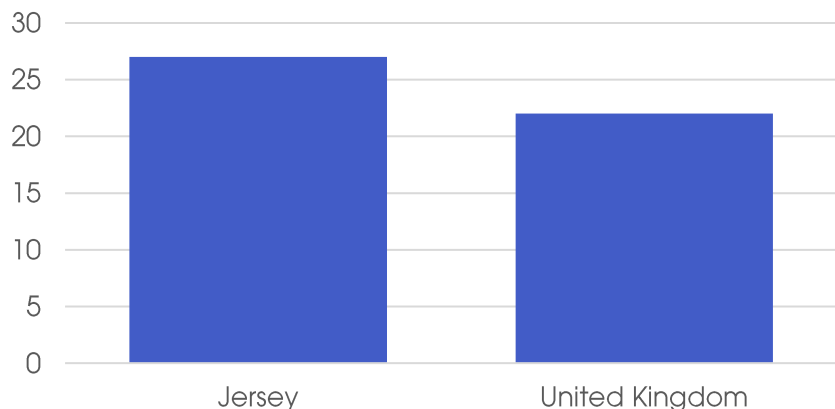
Housing costs include mortgage interest payments, gross rent, service charges, buildings insurance and parish rates. Spending on energy and utilities are additional to this.

Households in the lowest income decile in Jersey spend 56 per cent of their income after benefits and deductions on housing costs, compared with less than six per cent by the those in the top decile. This is likely since most of these costs are inflexible with little competition in the market and therefore limited alternatives available.

Percentage of net household income spent on housing costs by income decile
Jersey, equivalised households, 2014/15, per cent



Share of households in relative low income after housing costs
2019/20, equivalised households, per cent



Household income inequality after housing costs is worse in Jersey than in the United Kingdom.

In early 2020, equivalised median incomes were 44 per cent higher in Jersey than in the United Kingdom, both before and after housing costs. But the proportion of households in relative low income was similar, with Jersey marginally better off with seventeen per cent of households in relative low income versus eighteen per cent.

Once housing costs are factored in, 27 per cent of Jersey’s households live in relative low income, compared with just 22 per cent of households in the United Kingdom. This suggests that the costs of housing plays a bigger role in pushing households towards poverty in Jersey than it does in the United Kingdom.

Poor households most affected by cost hikes

Relative poverty is particularly a problem in the face of the cost-of-living crisis and rising housing costs.

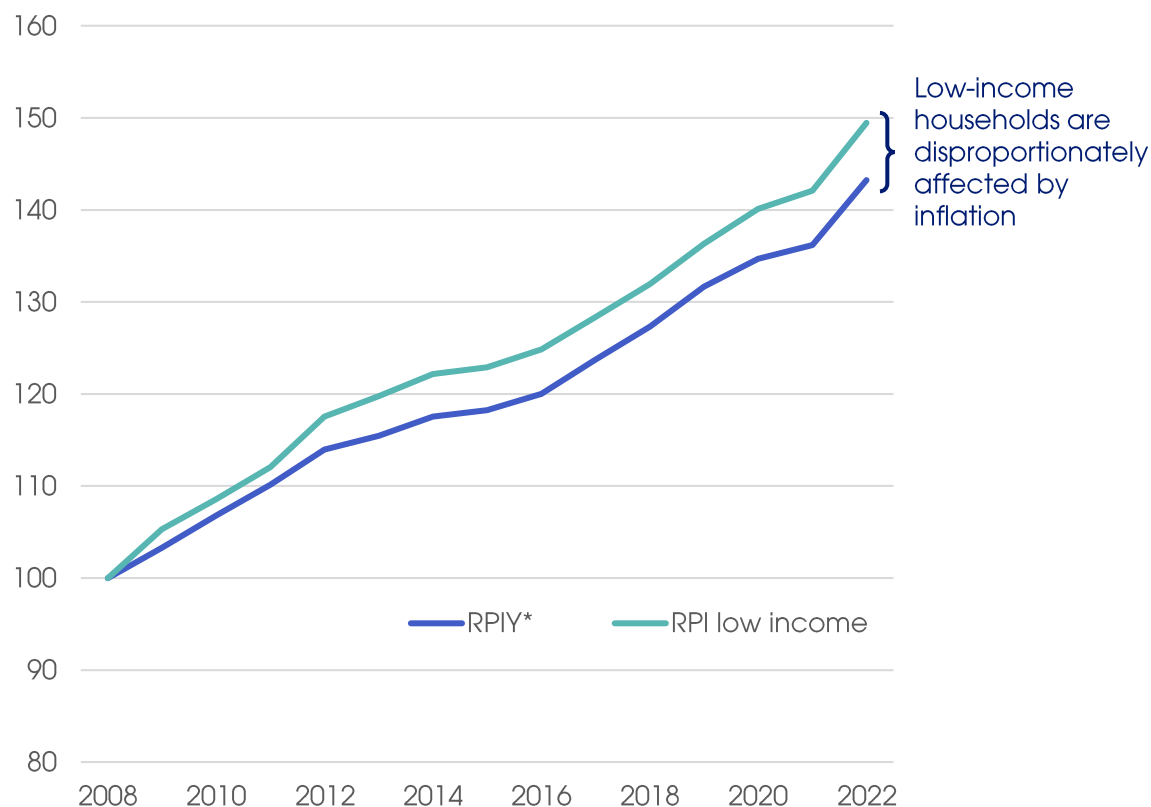
Throughout the covid pandemic, those who were already living in poor health, poverty or in marginalised communities were the hardest hit, and the same is true for during the ongoing recovery.

How households choose to spend their incomes depends on several different factors. One important factor is their income level. In Jersey, inflation is measured for all households as well as for low-income households in isolation. These measures show that since the 2008 global financial crisis, prices faced by households with low incomes have increased by 50 per cent, compared with 43 per cent for all households.

Recently, pensioner households have felt the squeeze when it comes to cost-of-living increases more than others. While other households have seen prices rise by 5.2 per cent, these households have been faced with 6.2 per cent rises over the past twelve months.

Indexes of retail prices (RPI) faced by different household groups over time

Jersey, indexed 2008 Q1 = 100



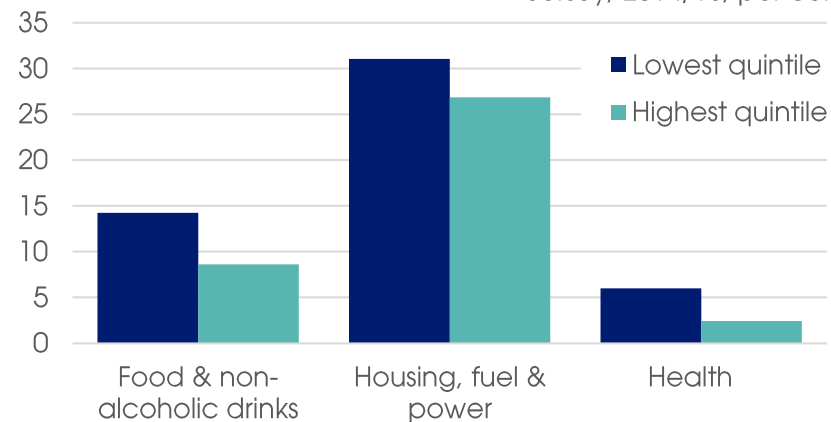
Lower earning households spend more on food and energy.

As well as differences in the capacity that households have to adjust how much of their income they spend each week rather than saving it for later, households with lower incomes spend a greater share of the income they do have on essentials rather than 'nice-to-haves'.

For households in the bottom quintile of earnings in Jersey, nearly fifteen per cent of household income goes towards food, nearly a third towards housing and energy and more than five per cent towards health related goods and services. Together, these three categories of spending account for over half of their average weekly expenditure.

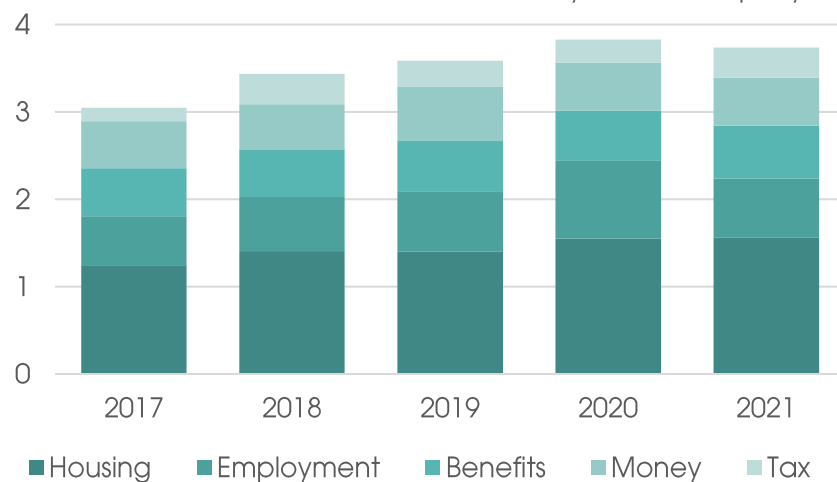
Percentage of average weekly household expenditure in selected categories by gross income quintile

Jersey, 2014/15, per cent



Citizens Advice Bureau enquiries

Jersey, thousands per year

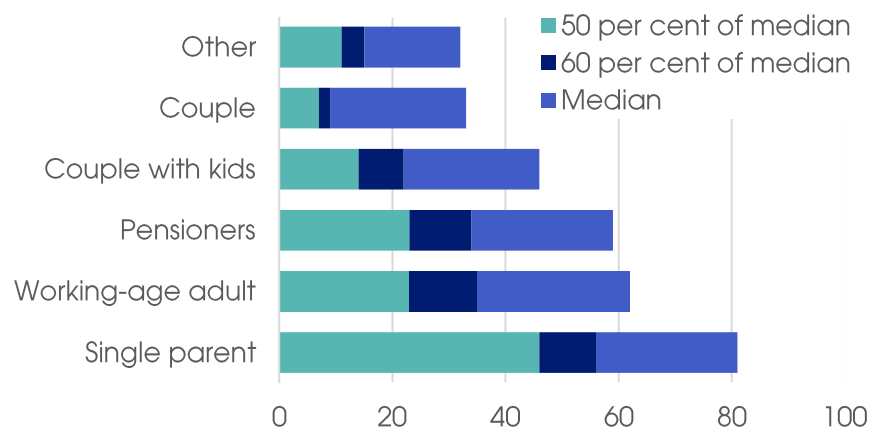


Russia's war and covid have had an impact, but the longer term trend existed even before this.

In 2017, Jersey's Citizen's Advice Bureau has fielded over three thousand enquiries concerning housing, employment, benefits, money or tax alone. Since then, annual enquiries have increased year-on-year with this trend interrupted only by a particularly large spike of enquiries during the early covid lockdowns.

Often these queries come from low-middle income working households that are ineligible for income support, but struggling to make ends meet without state-funded welfare support.

Proportion of households with income below thresholds after housing costs
Jersey, 2014/15, per cent



A third of all households in relative low income after housing costs were pensioner households.

And more than one in five pensioner households live on less than half the median equivalised income after housing costs even with the help of income support. Some pensioners benefit from property wealth that has increased in value over the course of decades, but many do not have access to this and have limited ways to increase their income.

But the granularity of the statistics collected obscures other vulnerable groups in Jersey.

Migrant workers are often ineligible for income support due to five-year residence requirement.

Seasonal tourism workers have high accommodation costs, poor job security and often work multiple jobs. Similarly, seasonal agricultural workers are often required to live in substandard accommodation with multiple occupancy. Despite often being on the lowest incomes, these households have limited access to state-sponsored support and are at risk of being taken advantage of by employers.

In general, these workers are economic migrants who choose to work in Jersey because the opportunity offered is greater than that offered elsewhere. However, some argue that since Jersey’s economy relies on their labour for prosperity, more should be done to protect new migrant workers while on the island from a humanitarian perspective.

Recommendations

1. Decide whether reducing income inequality remains a priority for this government, and quantify the level of inequality that is deemed acceptable. Ideally this should make reference to a particular Gini coefficient.
2. Explore ways to support pensioner households, and in particular those without access to property income.
3. Invite debate regarding what obligation (if any) the States of Jersey has to recent migrants—including temporary and seasonal workers—currently ineligible for income support and other welfare benefits.

Jersey's tax and benefits system today

A universal basic income could offer a means to simplify the current tax and welfare system, leading to potential administrative cost savings and a policy that better incentivises work at all income levels.

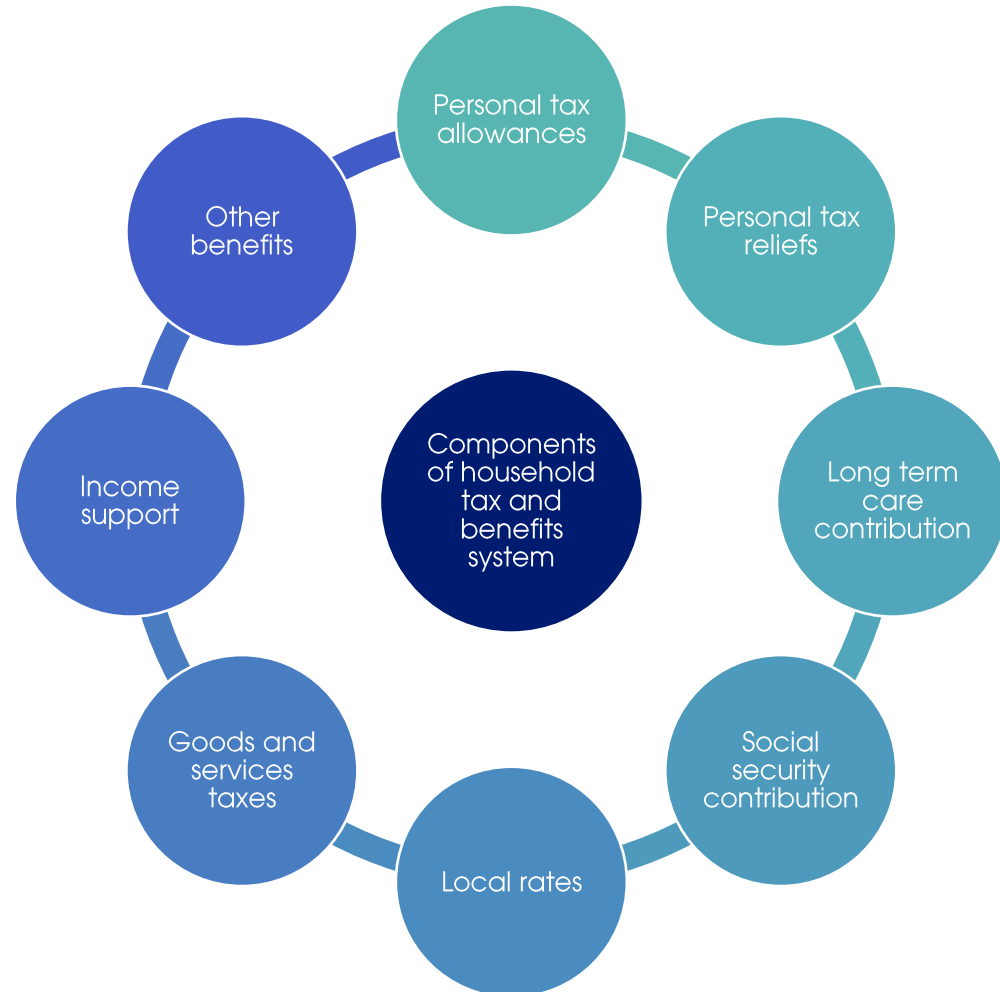
Scope for simplification of the current system

Compared with many tax and benefits systems, Jersey's system is relatively streamlined.

However, there remains scope for further simplification where the components of tax are seemingly unnecessarily duplicated and the functions between the tax and benefits system are blurred.

Personal income tax is based on total annual income but it also considers exemption thresholds, allowances and reliefs. This means that despite a simple maximum rate of twenty per cent, just over 5,000 people pay tax at this rate. For the remainder of the population, allowances in Jersey's tax system create an additional layer of complexity not often seen in personal income tax systems.

Households are liable for two additional contributions that are calculated separately but are dependent on income: Long Term Care contributions and Social Security contributions. Each of these additional taxes have their own set of rules and criteria.



Current system is regressive for lowest incomes

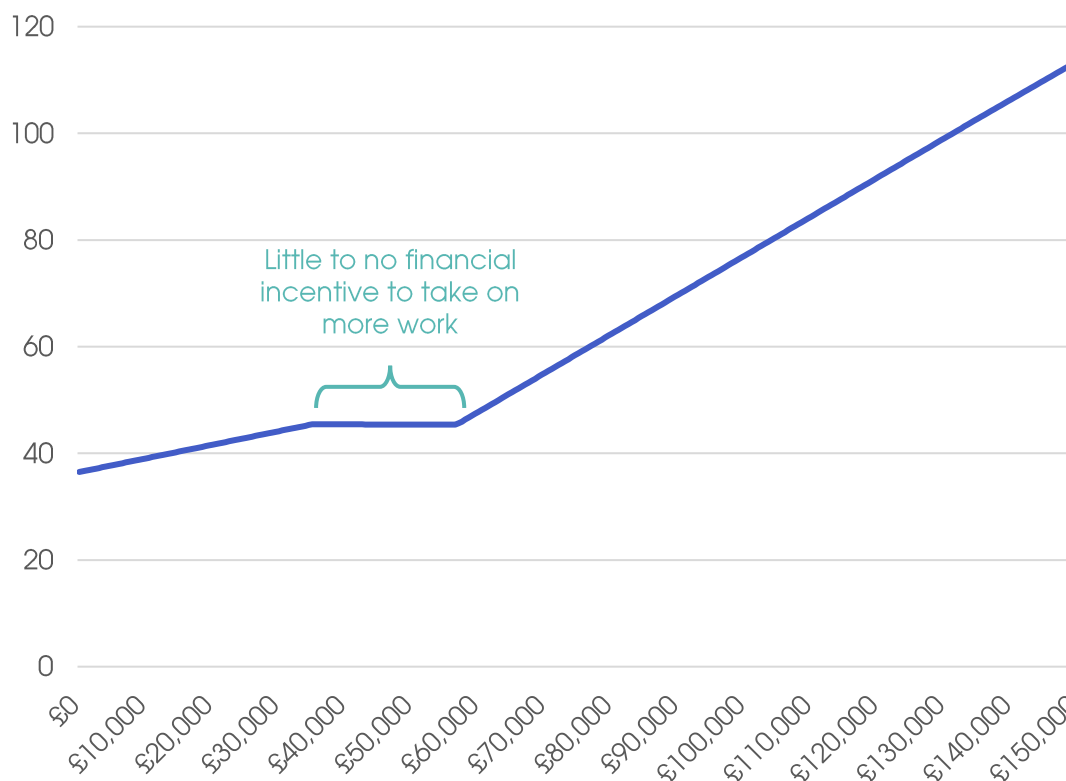
The current tax system in Jersey is heavily regressive for the lowest incomes when sales taxes are included.

Low-income households who benefit from income support are affected by the drop off in benefits that is provided as they earn.

Goods and services tax is relatively low at just five per cent and charged on the majority of goods and services supplied in Jersey for local use, including imports. However, its impact disproportionately affects lowest earners, who have higher propensity to spend their money rather than save it or spend abroad.

For a household with two adults and two children, where one adult is employed, there is little to no financial benefit for them to take on more when they earn £35,000 per year until their annual earnings exceed £55,000. If the second adult normally has caring duties but wants to start work, even on a part-time basis, they could lose more money than they earn from this additional work.

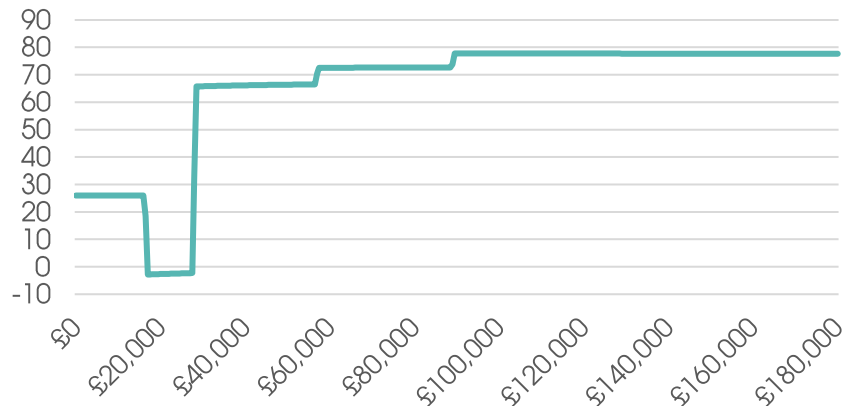
Take home pay versus earned income after all taxes and benefits* for a family of four with one working adult
Jersey, 2021, £ thousands



For the typical household in Jersey, the employment-related system is progressive.

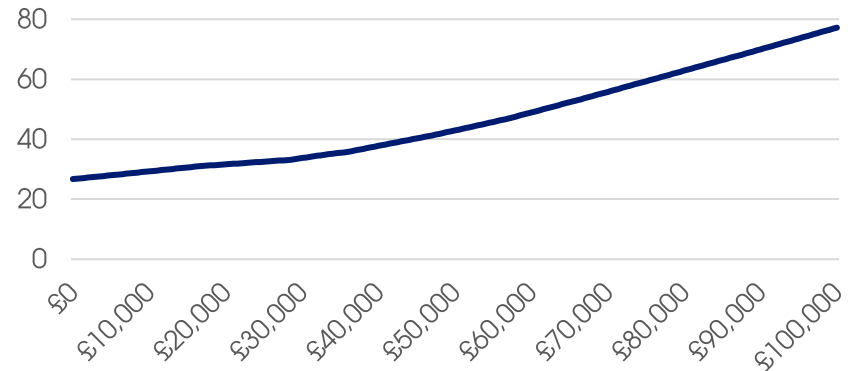
However, the combination of personal income tax, contributions and income support deliver poor incentives to work for low-middle income households. This is because the ratio of take-home pay to earned income increases sharply at around £30,000 per year.

Incremental gross earned income retained by a single adult household
Jersey, 2021, per cent



Take home income post-taxes and benefits by earned income

Jersey, average household excluding pensioner households, 2021, £ thousands

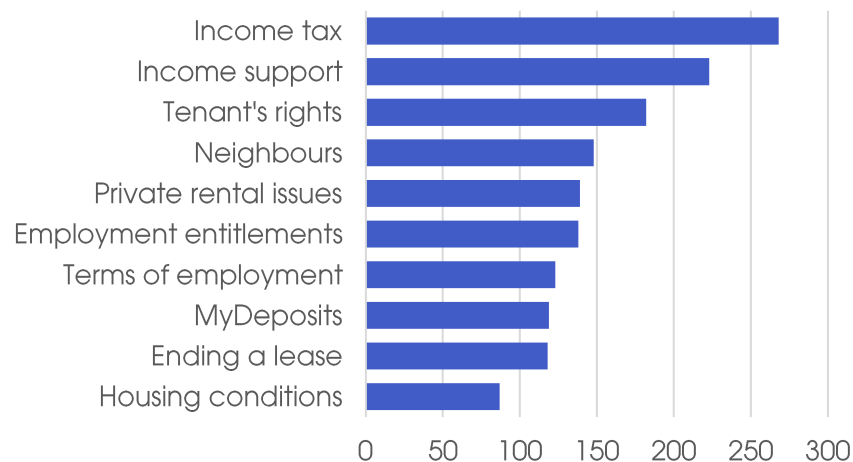


For some households there is a disincentive to earn at low income levels even excluding any changes in sales tax.

A model produced by Statistics Jersey suggests that a single-person household eligible for income support with an income of £17,000, none of additional money earned is not retained until this income exceeds £28,000. This is because within this range, more than £1 is lost for every pound earned.

It is not until this household earns £90,000 that they retain more than three quarters of every additional pound earned.

Number of enquiries to Citizens Advice Bureau
Jersey, 2021, number of enquiries



There are costs to complexity in a small jurisdiction.

The work and family hub within the Customer and Local Services Department (previously Social Security Department) is responsible for administering the social security contributory schemes. This includes Income Support and some other working age benefits. In any given year, Customer and Local Services (previously Social Security Department) staffing costs for the work and family hub are around £5 million. Of this about £1.8 million is for the Back to Work teams who support job-seekers into employment.

This does not factor in the costs associated with administering the personal tax system complete with allowances and reliefs, as well as additional contributions that need to be assessed separately.

The system can be confusing and at times unpredictable.

In 2021, Jersey’s Citizens Advice Bureau received nearly 500 enquiries regarding the income tax system or income support alone. A common issue faced by those households with queries regarding their income support were requests from government to return payments made to them in error. This issue generally arose where a claimant’s circumstances changed in a way that affected their Income Support eligibility, but this change was only identified after it had already been paid out and spent.

Though potentially rare, these problems, when faced by those already struggling financially cause undue stress and risk undermining the far-reaching benefits of the system.

Recommendations

1. Examine the role of tax allowances and reliefs and identify what behaviour they are trying to incentivise and whether these values are still relevant today.
2. Calculate the current combined costs of administrating the tax and benefits system where this applies to households.
3. Collect data on the incidence of repayments required from those on income support, and cases where the loss of payments was a disincentive to participate in the labour market.

Simulating a universal basic income in Jersey

The viability of a universal basic income in Jersey will depend most critically on its cost, and the political appetite to adjust taxation to ensure the policy remains fiscally neutral to avoid being inflationary.

We have developed a series of indicative scenarios to explore what a universal basic income might look like in practice. Our central scenario, based primarily on the policy judgements build into the current system—including basic income rates in line with payments currently made to households entirely dependent on income support—would require a personal tax rate of 42 per cent.

Fiscal neutral UBI policies don't come cheap

To better understand the potential benefits and costs of introducing a universal basic income in Jersey, we have developed an indicative simulation model.

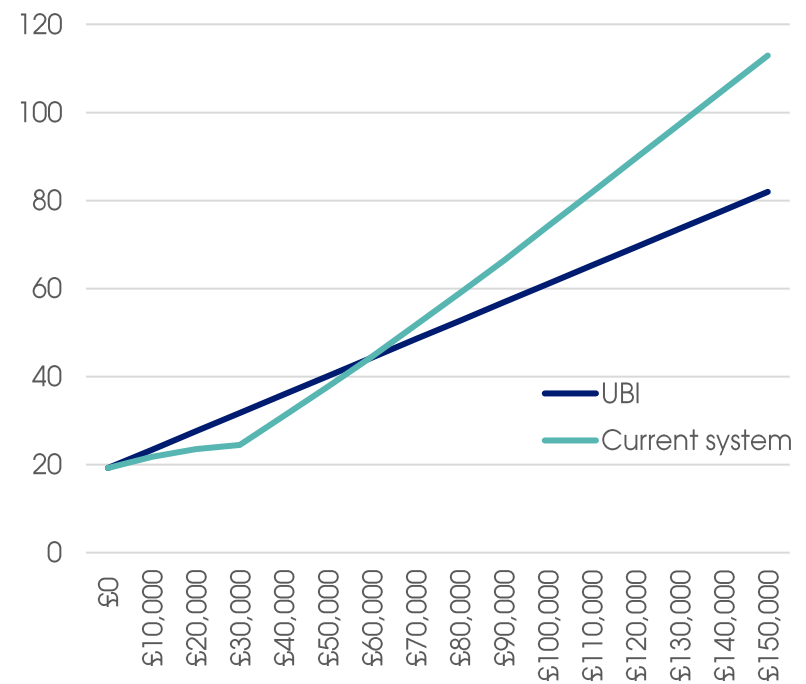
This model assesses the financial impacts of introducing a universal basic income of different scales on households with different structures and income levels. We compare the basic income that households would receive, against estimates of their increased tax liabilities and income support lost.

For a universal basic income policy to be viable in Jersey, it has to be fiscally neutral at a minimum. This is particularly important in the current climate where inflation is already a major concern. This means that rather than presenting the total cost of the system in terms of pounds spent, our primary metric of evaluating the cost is to assess how tax rates—in particular, personal income tax rates in the first instance—would need to change to ensure fiscal neutrality.

We start with a central scenario that unconditionally provides all working-age eligible households with the amount that they would receive if they had no income. This successfully removes the kink in the current system and ensures that households on the lowest incomes are not faced with high withdrawal rates upon starting work.

However, our model is merely a static model, and does not factor in dynamic impacts. See the next session for a discussion of the likely impact of these possible dynamic changes.

Total income retained after income taxes* and universal basic income for single adult household
Jersey, 2021, £ thousands

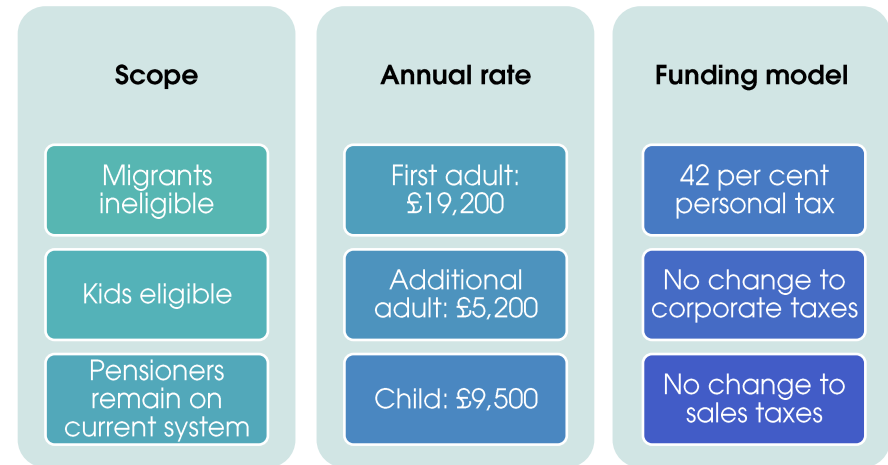


Our central scenario would require a 42 per cent personal tax rate on all household income earned in addition to the basic income.

The basic income is set at the rate that is currently received by households on income support with no other source of income.

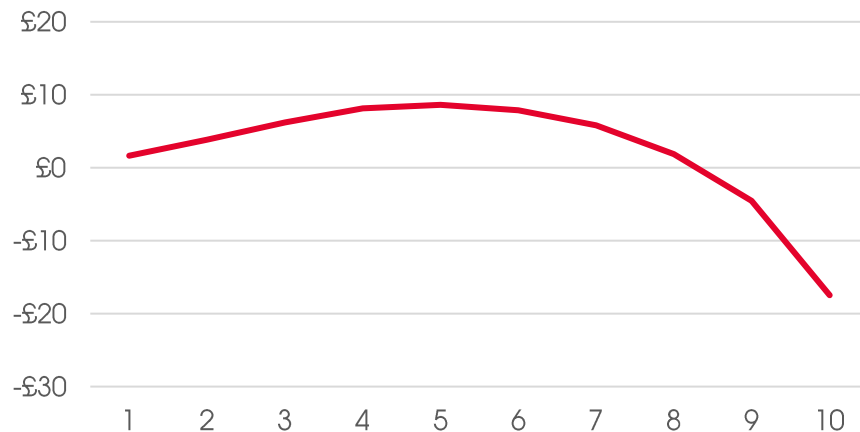
As per the current system, migrants who have lived in Jersey for less than five years (estimated to account for fifteen per cent of all households) are ineligible to receive the basic income, but are liable for the increased tax rate.

For simplicity, pensioners have been excluded from our model across all the scenarios. Instead they remain on the current system and the state pension continues to provide for those eligible households. Taxes for pensioners remain unchanged.



Central scenario parameters
Jersey, 2021

Median impact on household earned income before taxes and benefits by income decile
Jersey, 2021, £ thousands per year



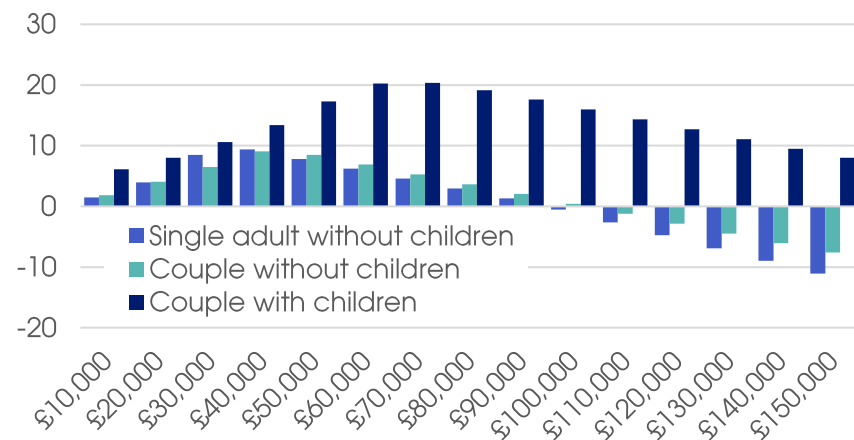
Under this model, the universal basic income will be funded by those in the top quartile of household incomes.

The median household in the top decile will be required to pay around £17,500 more per year.

In turn, households on the lowest incomes will benefit very slightly, with those in the middle of the bottom decile receiving an additional £1,700 per year. But it middle-income earners who will benefit most, with the median household receiving more than £8,000 per year.

Impact on household earned income before taxes and benefits by earned income

Jersey, 2021, £ thousands per year



The optimal model for a universal basic income will balance cost and effectiveness.

Money could be saved by lowering the rate paid out to households. But if this drops below what households need to live on, then this limits the possibility of simplifying the benefits system or risks the most vulnerable residents being worse-off.

In the pages that follow, we examine the impact of slightly altering this model in terms of its scope, the level of the basic income on offer and the funding model. A selection of these indicative changes could feasibly be made in conjunction with one another in order to reduce the cost of the policy.

On this system, families benefit until total household incomes exceed £200,000.

Single adults and working-age couples without children lose out under this system at £100,000 and £110,000 of household income respectively.

Single-parent households are not included here, but are expected to receive positive impacts only slightly below those of other households with children.

Recommendations

1. Consider the extent to which the personal income tax rate can and should be increased in Jersey.
2. Calculate the true cost of living today and establish what the appropriate level of payment is to meet basic requirements.
3. Conduct more detailed modelling of the impacts of a universal basic income on different groups. This should include, but not be limited to, pensioners, migrants and children.

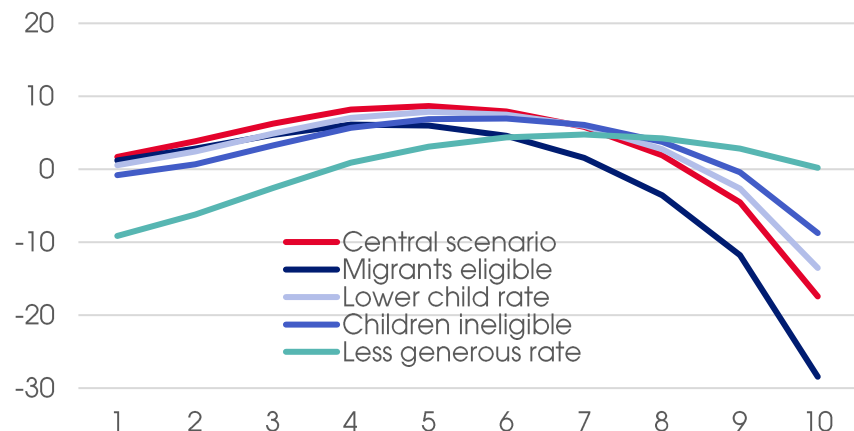
Alternative models of UBI are possible

Model	Annual rates	Migrants	Children	Personal tax
Central	Income support	-	Yes	42 per cent
Less generous rate	<ul style="list-style-type: none"> Adults: £7,700 Children: £3,900 	-	Yes	27 per cent
Children ineligible	Income support	-	-	36 per cent
Lower child rate	<ul style="list-style-type: none"> First adult as per income support Additional person: £5,200 	-	Yes	39 per cent
Migrants eligible	Income support	Yes	Yes	47 per cent
Corporate and sales taxes doubled	Income support	-	Yes	32 per cent
Doubled sales taxes	Income support	-	Yes	35 per cent
Doubled corporate taxes	Income support	-	Yes	39 per cent

Alternative models for a universal basic income policy in Jersey
Jersey, 2021

Median impact on household earned income before taxes and benefits by income decile

Jersey, 2021, £ thousands per year



Whilst remaining fiscally neutral by changing only the rates of personal income taxes, other models of universal basic income are possible.

Allowing migrants to receive a basic income would substantially increase the cost of the policy, leaving those in the top income decile with more than £30,000 of additional annual costs on average.

A substantially less generous rate will not sufficiently redistribute incomes from the richest households to the poorest, and if the universal basic income is to replace the current income support programme these households will lose out.

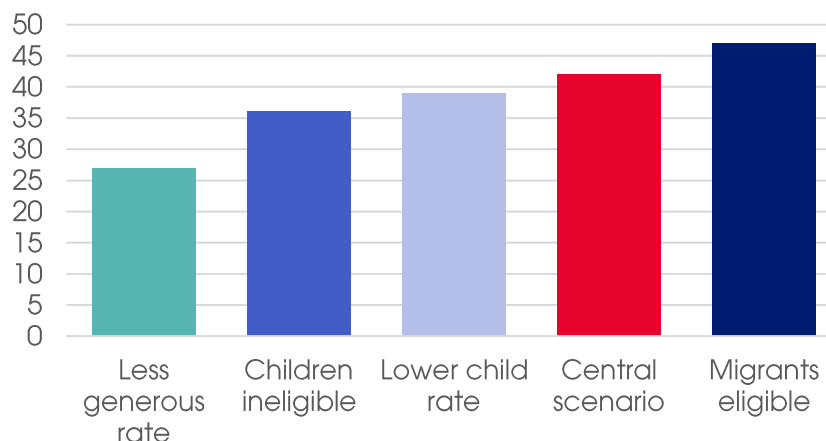
Reducing or removing the payment to children presents a potentially better alternative.

If the basic income per child is reduced from £9,500 to £5,200 per year in line with the rate paid for any additional adult, the personal tax rate could be reduced to 39 per cent. And if it is removed altogether then personal income taxes could be further lowered to 36 per cent.

However, each of these proposals risk disproportionately exposing single-parent households, and additional benefits may be required to specifically target these households.

Personal income tax rate required for fiscal neutrality

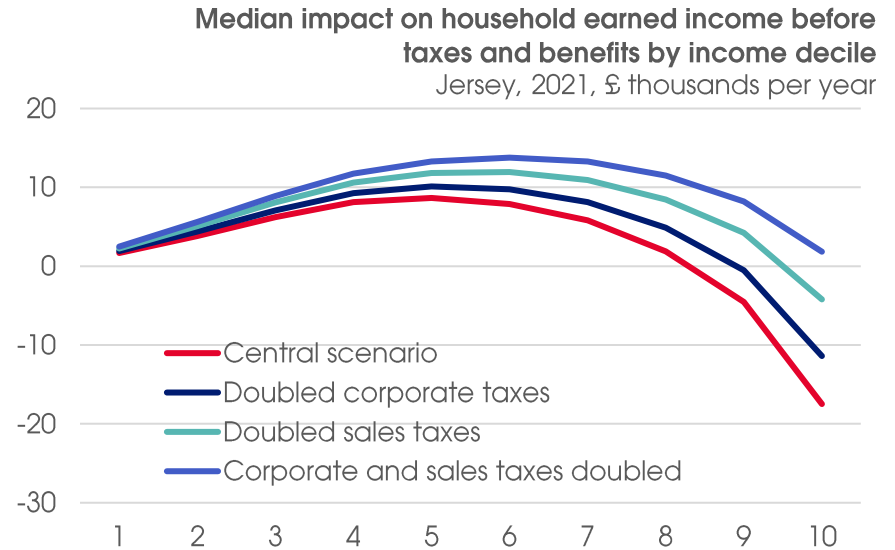
Jersey, 2021, per cent



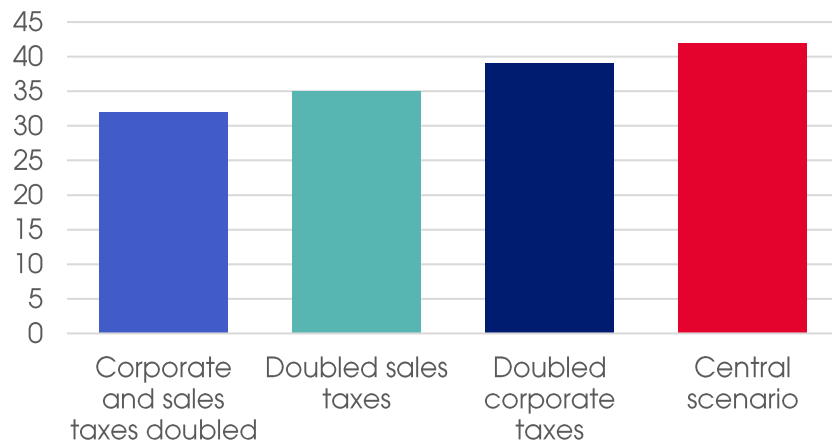
Raising other taxes may also help to make a universal basic income more affordable.

For example, doubling goods and services taxes from five to ten per cent would mean that personal income tax need not rise above 35 per cent.

However, the impact of increasing sales taxes across the board will disproportionately impact lower income households and this has not been captured here. A potential alternative would be to introduce new taxes on 'luxury' items, or to increase the rate of goods and services tax but exclude it from a group of essential items such as food.



Personal income tax rate required for fiscal neutrality
Jersey, 2021, per cent



Raising corporate taxes, particularly in the finance sector may be possible.

After all, the financial services sector makes a positive decision to be in Jersey, and the reasoning behind this decision often goes beyond the tax incentives offered. In making this decision, many in the sector understand that they have subscribed to an implicit social contract which may require them to contribute more to the prosperity of the island in which their businesses develop and their employees live.

Doubling corporate taxes would likely help to lower the personal tax rate by around three percentage points.

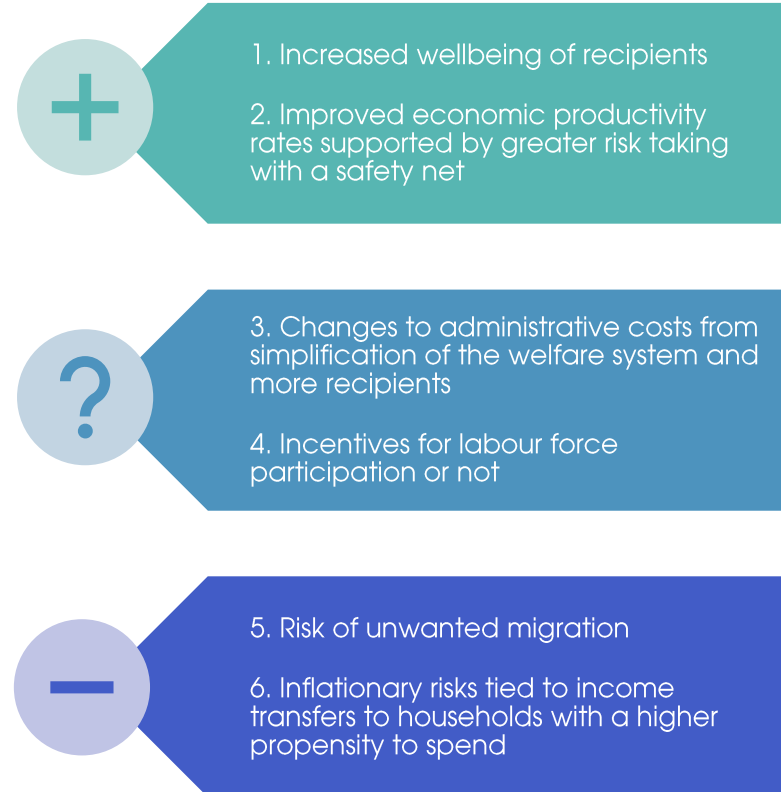
Dynamic impacts need consideration

We have identified six possible dynamic impacts tied to the implementation of a universal basic income that have not been modelled here.

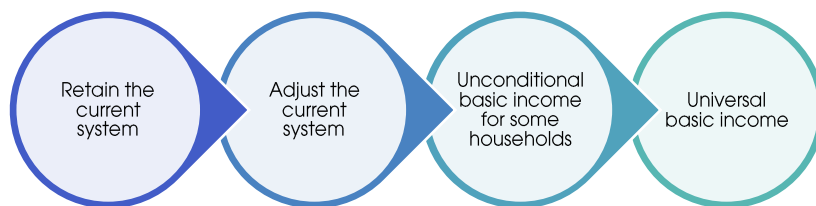
There are likely to be some administrative cost savings from the simplification of the tax and benefits system. But depending on the mechanism used, there are potentially some increased administrative costs associated with regular transfers to all households on the island. The overall impact that this has on the viability of the system is unclear.

It is unclear what the overall impact will be on labour force participation. After all, an unconditional income does not necessarily mean less work. This is particularly so, given Jersey's entrepreneurial and engaged culture. Where a universal basic income might dissuade large swathes of unengaged workers from labour force participation in some countries, Jersey is different. Despite high average earnings, the employment rate for Jersey in 2020 was greater than or equal to all Organisation for Economic Co-operation and Development member and partner countries except for Switzerland, Iceland and the Netherlands.

In addition to these dynamic impacts for which the direction of the impact is unclear, there are other impacts that are likely to be either generally positive or generally negative, but it is not clear the magnitude of such an impact or how much Jersey would value these changes. For example, even a fiscally neutral policy may not go far enough to prevent inflation. By transferring income from higher income households to those with a higher marginal propensity to consume, inflationary risks may persist.



Indicative dynamic impacts by their likely direction of impact on total costs
Jersey, 2021



Intermediate policy options available
Jersey

But there may be benefits that only a universal basic income can deliver efficiently.

As detailed in the first section of this report, a universal basic income promises a variety of widespread economic and social benefits that go beyond what might be achieved by reform of the tax and benefits system alone.

We have not gone beyond a high-level survey of these possible benefits, but international experience to date suggests that they could be substantial. Provided there is some scope to reform the current tax system and a desire to reduce income inequality, Jersey should consider exploring the possibility of a universal basic income in more detail.

It may be more viable to reorganise the current tax and benefits system.

Doing so could help to reduce the administrative costs created by complexity and means-tested criteria. If desired, the current system could also be easily tweaked to reduce income inequality and the drop off in benefits could be made smoother to better incentivise work.

This offers an intermediate step between retaining the current system and adopting what is still considered by many to be a relatively radical policy. Offering an unconditional basic income to certain individuals, such as those who grew up in relatively low income households, might also offer a way to reduce the costs of a fully universal basic income scheme by targeting those households most likely to be in need.

Recommendations

1. Engage the international financial sector and other professional organisations in discussions surrounding their contribution to Jersey's economic and social prosperity.
2. Commission further research to test and/or model the magnitude of dynamic impacts.
3. Examine to what extent the tax and benefits system can be reorganised to reap some of the benefits promised by a universal basic income. Any proposed universal basic income should be evaluated against any possible modifications identified here.

Refreshing the social contract

Although a universal basic income may not be affordable for the island, there remains much that can be learned from its rationale and trials in other economies when it comes to Jersey's benefits and taxation regimes.

It's time to refresh the island's social contract

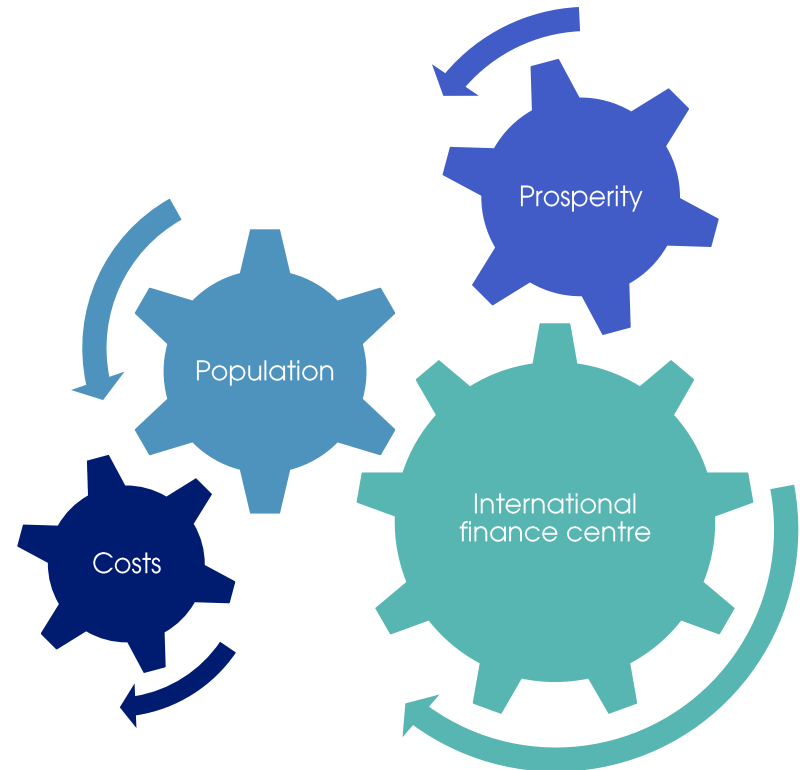
After covid and facing widespread hikes in living costs, it is time for Jersey to reconsider its social and economic priorities. There should be an active choice of the appropriate balance between growth and distribution.

Jersey has seen strong economic growth driven in large part through the expansion of its international finance sector. But this growth in prosperity has been tied to a rising population necessary to support the workforce required by the financial and business sectors as they service clients in greater numbers and further afield.

Population growth is not in itself problematic. But with 20,000 more residents today than two decades ago, Jersey is more congested. There are greater demands being placed on its spaces, natural resources and public services. This can be seen perhaps most clearly in the housing market, where easy-to-develop land is becoming increasingly scarce, and costs are rising to levels that are unaffordable for many households – and not just the lowest income families. As life on the island becomes more expensive, a greater safety net will be required to catch those in need, and it will become less attractive as a place to live for the talent needed by the international finance centre to continue growing.

As it stands, there is a disconnect between the negative impacts of growth and the way their mitigation is funded. Jersey now has the opportunity to find the optimal balance between prosperity and population size, and to refresh the way in which the costs to society associated with any growth in population are paid.

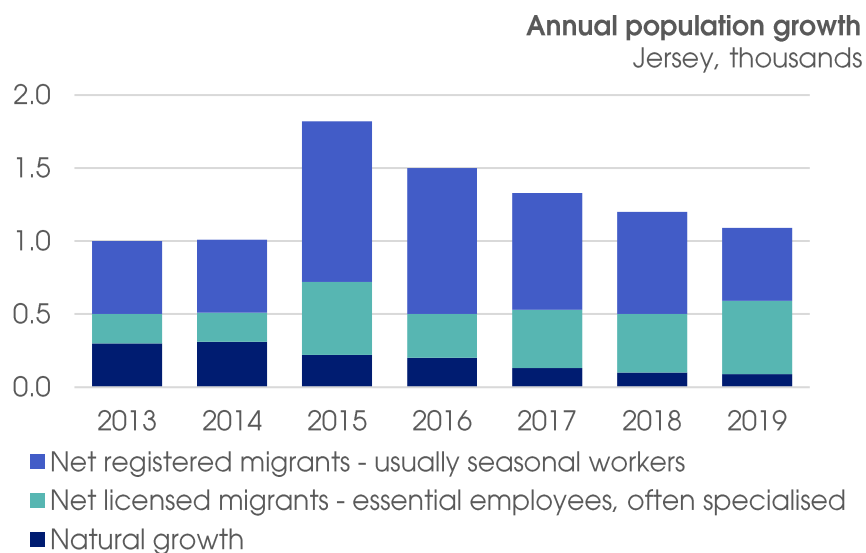
Expansion of the international finance centre drives growth in both population and prosperity
Jersey, 2022



A more intentional, nuanced and Jersey-relevant approach to income distribution is needed.

Considering disadvantage only in the context of ‘relative low income’ can miss the point. While these statistics can be useful for the purpose of a high-level comparison between countries, they are of little use when it comes to understanding or addressing the disadvantages and poverty faced by some members of Jersey’s population.

The appropriateness of Jersey’s income distribution, and the levels and nature of poverty experienced, shouldn’t be determined by reference to other countries – but by what the Jersey polity wants, is willing and is able to support. A Jersey-specific debate is needed, and a bailiwick-relevant approach developed.



“An internationally recognised threshold of relative low income is 60 per cent of the median equivalised income for a jurisdiction. It should be noted that this provides a relative measure of low income, within the context of a particular jurisdiction, and relative to all household types, rather than an absolute measure of low income for a particular household. In addition, this measure does not take into account spending patterns, which are likely to vary between household types.

This measure of relative low income does not therefore indicate which households have an income level below that which is necessary to maintain a certain standard of living for that household type.”

Statistics Jersey, 2022

Jersey’s economic growth has depended on migrants, who disproportionately feature among the island’s poorest families.

Jersey, like many other economies, relies on migrant labour to bolster its workforce, particularly in traditionally lower-paid and seasonal industries such as hospitality and agriculture – as well as for higher income roles in the international finance centre.

While these tend to be economic migrants who choose to come to Jersey to work in return for wages that are higher and conditions that are potentially better than they would be eligible for elsewhere, they account for a disproportionately high share of the island’s in-work low-income households. They also have limited or no access to benefits, and poor employment security. Any review of Jersey’s welfare system should consider whether this has struck an appropriate and sustainable balance.

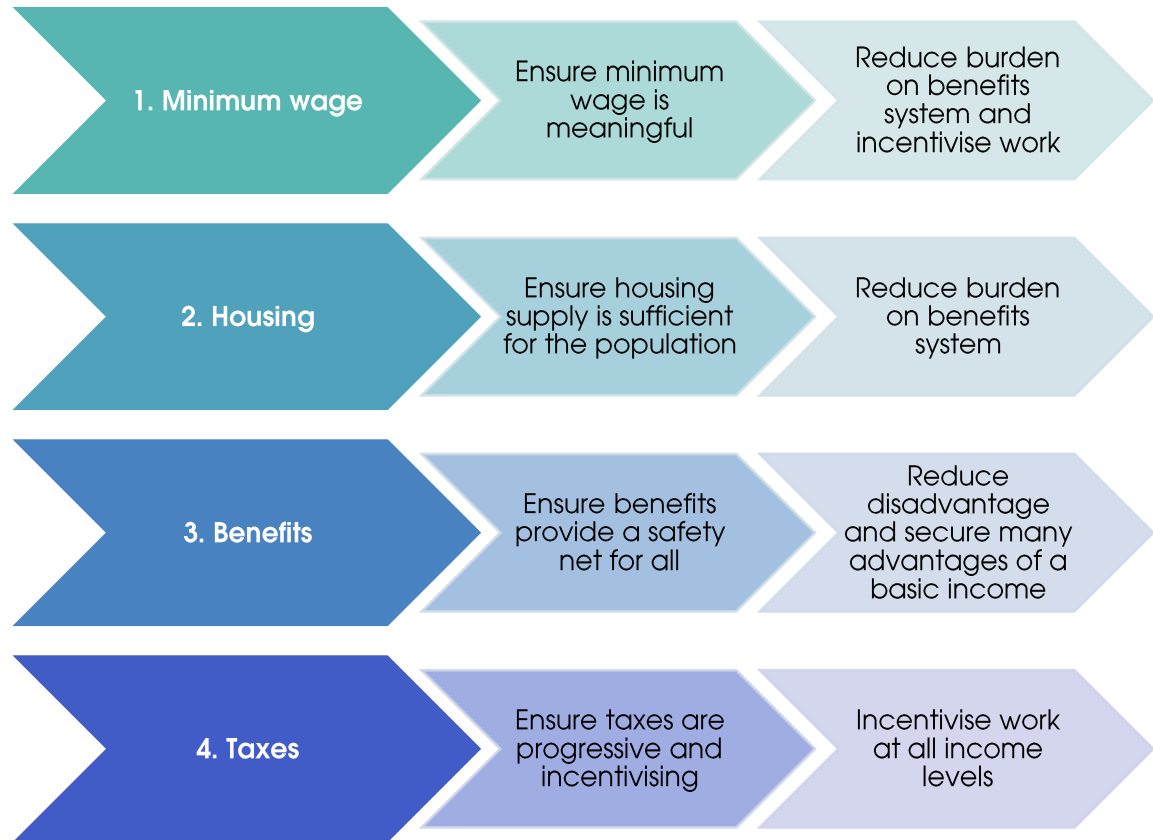
A benefits system that supports non-workers

Given the costs of a universal basic income, other ways are needed to address the disadvantages faced by some individuals and households in Jersey.

Although a universal basic income may not be appropriate for the island, there remains much that can be learned from its rationale and trials when it comes to Jersey's benefits and taxation regimes.

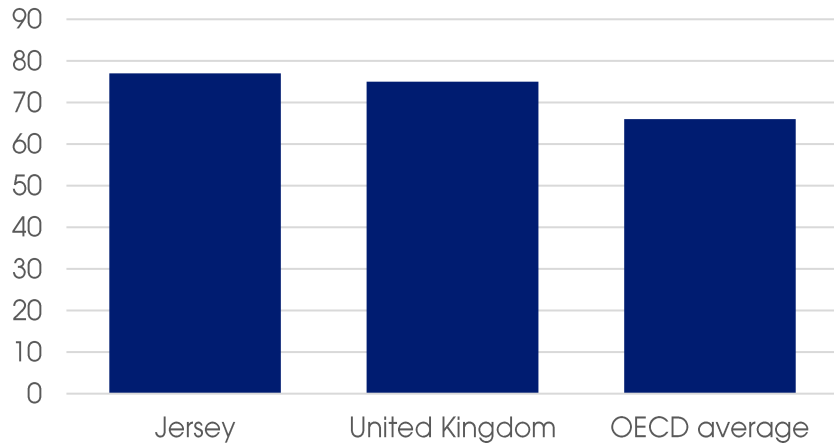
Government should focus on encouraging employers to provide good jobs that pay a wage set in respect to island-specific conditions. If those in employment are paid wages or salaries that are sufficient to afford a decent standard of living and seemingly ever-rising housing costs are brought under control, then the benefits system can focus on providing support to those unable to work.

This would allow Jersey to take advantage of a well-established social safety net guaranteed by a basic income, without the hefty price tag associated with making the scheme universal.



Four recommended policy-related actions
Jersey, 2022

Employment rate
2020, percentage of working age population



Jersey is not a place that has mass unemployment—indeed, it doesn’t struggle to reach full employment.

With more than three quarters of its working age population either employed or self-employed, Jersey’s employment rate is greater than or equal to all Organisation for Economic Co-operation and Development member and partner countries except for Switzerland, Iceland and the Netherlands.

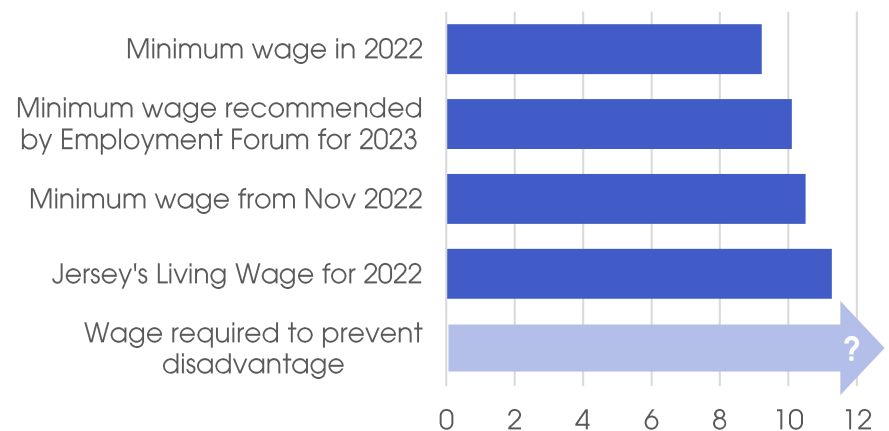
In 2020, the long-term unemployment rate (i.e. the number of working-aged adults who have been unemployed for a year or more as a percentage of the labour force) for Jersey was 0.68 per cent. This was lower than both the average across the Organisation for Economic Co-operation and Development at 1.30 per cent and the United Kingdom at 0.90 per cent.

But jobs must guarantee a meaningful minimum wage sufficient to secure a decent life on the island.

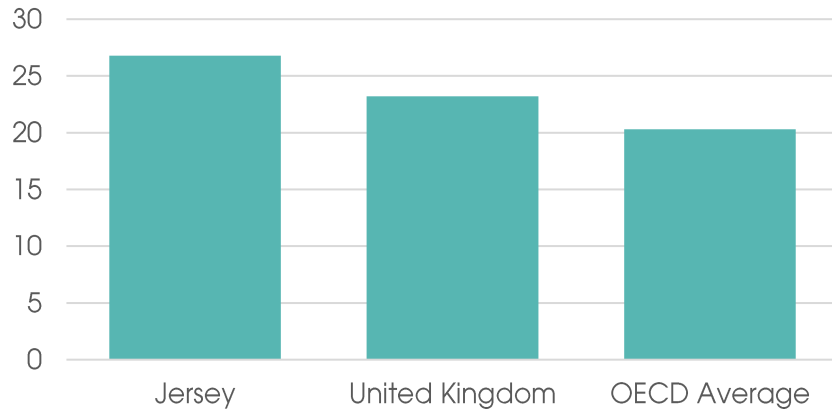
One of the eighteen actions included in the Council of Ministers’ 100 Day Plan was to “hasten progress towards a living wage for all” by raising the minimum wage to £10 per hour, the Employment Forum recommended that the minimum wage be set at £10.10 from January 2023 and the new Government has ultimately decided to raise it to £10.50 from this November.

But the new figure remains seven per cent below the £11.27 per hour Living Wage calculated for 2022 based on a two per cent uplift on London’s living costs. In today’s climate, a focused study of the true costs of life in Jersey is needed to allow the Government to set a minimum wage that allows employees to live, employers to uphold their end of the social contract, and the benefits system to focus where it is most needed.

Minimum wage thresholds
Jersey, 2022, £ per hour



Housing expenditure as a percentage of net disposable income
2019, per cent



The challenges of housing affordability underpin many of the pressures placed on household incomes and the public benefits system more widely.

Households in Jersey spend more than a quarter of their net disposable income on housing—a greater proportion than all but one of the Organisation for Economic Co-operation and Development countries. This places additional burdens on the benefits system as households on already lower incomes find it even harder to make ends meet, and the state finds it necessary to support a greater number of households that—if it weren't for unaffordable housing costs—might otherwise be able to support themselves.

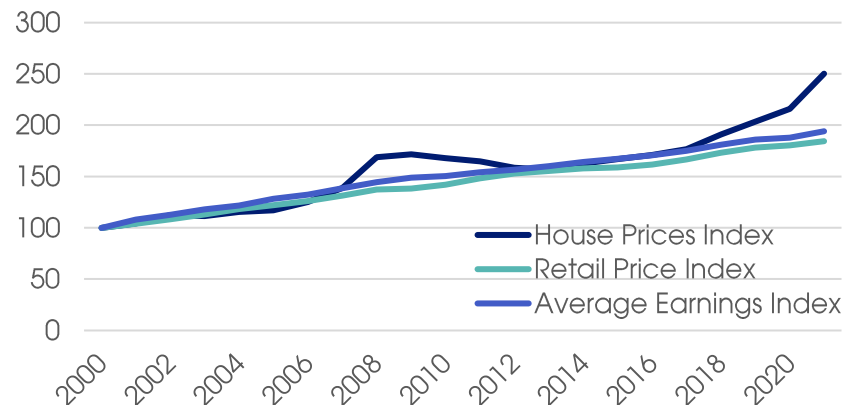
These high costs stem from inadequate housing density and rates of building that have not been high enough to keep pace with rising demands propelled by a growing population.

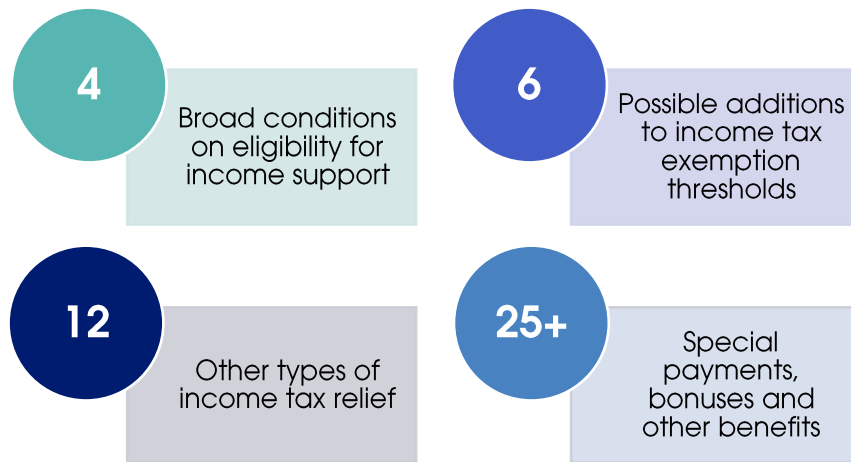
Landowners benefit from increased demand for space tied with population growth.

Owner-occupied homes are significantly more likely to be underoccupied with 79 per cent of homes with one or more bedrooms above standard for a particular household size, compared with just 28 per cent of rented accommodation. And on census day in 2021, 4,000 or 8.3 per cent of homes were vacant. A reason was given as to why they were vacant for just under half of these properties, with thirteen per cent declared as holiday accommodation or second residences.

Those who own land benefit financially as Jersey's property values rise, whilst their housing costs tend to remain relatively constant or even decrease as a proportion of their income. As a result, there may be scope to generate additional government revenues through second home and other property taxes.

Retail price, average earnings and house price indices
Jersey, indexed 2000=100





Complexity in the tax and benefits system
Jersey, 2022

Jersey need not be too worried about a guaranteed income disincentivising work if taxes are streamlined.

Instead, the presence of a basic income has often been shown to provide a positive incentive to work with systematic exceptions to this only arising in cases where economic activity is substituted for other forms of productive activity such as volunteering, education or caring. Given its entrepreneurial culture, one should expect that this will hold true and potentially be even more pronounced in the context of Jersey.

However, it will be important that the taxation regime is made clearer, simpler and more flexible so as to avoid inadvertently disincentivising work for those households in low-middle income brackets who currently face a trade-off between working additional hours and their post-benefits take-home pay.

With a Jersey-specific minimum wage in place, the benefits system can and should then be made simpler, easier to access and wider in its coverage.

In 2008, the benefits system was significantly simplified with the replacement of fourteen benefits by the Income Support scheme. This has certainly gone a long way towards simplifying the scheme. However, the strict eligibility criteria and often relatively low value of the remaining benefits means that even where households are helped to meet a variety of important needs, many of the advantages of a basic income are lost.

Operational efficiencies will be gained if the benefits system is focussed less on identifying eligibility for and distributing relatively small pots of money, and more on providing a wholistic safety net for those in the population who are unable to work, whether for short or long stretches of time.

Recommendations

1. Encourage pragmatic deliberation and conduct research to identify the optimal balance between growth and distribution for the jurisdiction.
2. Carefully review the minimum wage in Jersey with reference to local costs of living and not simply in relation to other places or historic rates.
3. Explore a variety of innovative policy options to encourage the development of an adequate long-term housing supply and tackles affordability issues.
4. Review the tax and benefits system in the round to identify areas where these can be streamlined and/or simplified.

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