

# **Economic Impact of a Minimum Income Guarantee: Analysis of economic theory and policy evidence**

**August 2024**

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A WPI Economics report for the Scottish Government and Minimum Income Guarantee Expert Group.

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# Introduction

The Scottish Government is exploring innovative ways to tackle poverty and inequality. This includes via a Minimum Income Guarantee – an income level under which people could not fall. It has established an independent Expert Group to consider how this could be delivered in Scotland.

The overarching policy aim of a Minimum Income Guarantee is to tackle poverty, inequality and financial insecurity and ensure a socially acceptable standard of living, which promotes dignity and a decent quality of life. The independent Expert Group has been tasked with defining the level of a Minimum Income Guarantee and producing a final report in 2024 with a series of recommendations to the Scottish Government. The Expert Group expects that the implementation of a Minimum Income Guarantee in Scotland will be a longer-term change with an initial goal (i.e. over an initial 10-15 year period) of achieving, as far as possible, 75% of the Minimum Income Standard (MIS) for everyone in Scotland.<sup>1</sup> The final goal over the longer term is 100% of the MIS – dependent on further devolved powers and financial constraints.

There are three mutually supportive areas under consideration that would form the basis of an approach to creating a Minimum Income Guarantee in Scotland.

- Reform of the social security system so that it provides a guarantee of a dignified quality of life;
- Improving the fairness of the labour market, in particular to boost quality and security of work and to promote labour market access; and
- An expansion of free and/or affordable services and the potential regulation of costs of essentials, with a prioritisation of addressing those that promote labour market access e.g. childcare and transport.

This report provides a summary of the expected economic and social impacts of a Minimum Income Guarantee, based on both theoretical literature and existing policy implementation of Minimum Income Guarantee-type policies across Europe. It then concludes with the key policy lessons and recommendations to consider as the Minimum Income Guarantee is designed and moves towards implementation. Full findings can be found in the main report.

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<sup>1</sup> The Minimum Income Standard is based on research undertaken by Loughborough University with members of the public to understand the items that the general public think need to be included in a minimum household budget. The results show what different households need in a weekly budget and how much they are required to earn to achieve this. See: <https://www.lboro.ac.uk/research/crsp/minimum-income-standard/>

## Findings from economic theory

Our review of the economic literature on Minimum Income Guarantees and other income guarantee policies focused on six key areas.

**Market and policy ‘failures’ a Minimum Income Guarantee could address:** Poverty in Scotland (and the UK) has been stubbornly high for the last two decades. Despite some progress in reductions in child and pensioner poverty, working-age poverty has increased over the period. This rise in working-age poverty is linked to a range of economic circumstances and policy choices. These include reductions and freezes applied to core working-age benefits since 2010, the increasing insecurity of jobs at the lower-end of the labour market, and an approach to employment support and requirements placed on jobseekers that prioritises ‘any job’ over tailoring job search and placements to an individual’s existing skills and circumstances. There has also been a sharp increase in the cost of essential goods and services in the context of the ongoing cost-of-living crisis that already insufficient incomes are unable to meet.

**Groups who would most benefit:** Low-income households, who are currently below the Minimum Income Guarantee level, would be most likely to benefit from a Minimum Income Guarantee. Within this, specific demographic groups that are most likely to benefit would depend on the policy design – but are likely to include long-term unemployed people, lone parents, retired disabled people, and minority ethnic groups with lower labour market outcomes (especially those with Pakistani and Bangladeshi ethnicity).

**Microeconomic impacts:** A Minimum Income Guarantee will affect labour supply through its impact on the incentive to work, and there is concern that a Minimum Income Guarantee set too high may create a poverty or benefit ‘trap’. However, the precise impact of a Minimum Income Guarantee is dependent on policy design, associated policy responses and business choices. For example, an increase in out-of-work incomes could incentive employers to raise wages and improve the fairness of the labour market to secure necessary labour. Conditionality of the Minimum Income Guarantee may also influence its effect on people’s incentive to work, but empirical evidence suggests its impact is generally small and varies among different groups. More generally, there is also some evidence that more generous welfare systems may improve job matching quality, and reduce the likelihood of people withdrawing from the labour market in the long-term. This can potentially enhance productivity, especially in countries with flexible labour markets.

**Macroeconomic impacts:** Expected economic benefits include lower unemployment and higher tax revenue in the long-term. The initial fiscal burden may be higher due to increased social-security spending and investment in employment support as the system beds-in, but this could reverse over time as more people find and retain employment. Impacts on the demand side will be shaped by the extent to which tax increases are required, and the potential increase in consumption from lower income households. On the supply side, a Minimum Income Guarantee funded through increased taxation may lead to a reduction in employment due to higher tax rates.

**Wellbeing impacts:** A Minimum Income Guarantee may improve household income levels and stability, leading to better health outcomes and reduced spending on healthcare and social care. Improved educational outcomes for children in recipient households may in time enhance the occupational outcomes of households across generations, improving earnings, reducing inequality and boosting social mobility.

**Impacts on a Just Transition:** A Minimum Income Guarantee could help mitigate distributional effects of transitioning to a low-carbon economy by providing an income buffer for affected workers and linking a Minimum Income Guarantee to broader skills retraining efforts. While there is limited economic literature on the distributional consequences of a Just Transition, those that focus on employment level shifts show a small but positive impact.

## Creating an economic framework

These findings can be brought together into a Theory of Change, showing the interconnection of various policy mechanisms and the expected effects that should lead to outcomes that we might expect from the introduction of a Minimum Income Guarantee. This is shown below in **Figure 1**.

However, the shape of the outcomes and the certainty of achieving them will depend on the exact policy design of a Minimum Income Guarantee, and how the various levers interact with each other. The Theory of Change shows that attempting to achieve the Minimum Income Guarantee through just one of the policy levers is unlikely to have the desired outcomes – and could lead to some considerable unforeseen consequences. These could be offset by taking a mixed approach to achieving a Minimum Income Guarantee – as is currently the intended approach of the Expert Group.

The Theory of Change highlights the importance of ensuring that a more generous social security offering is underpinned by robust work incentives and labour market improvements and supported by sustained action on important household costs and services.

**Figure 1:** Theory of Change for the introduction of a Minimum Income Guarantee

<b>Inputs: market and policy failures to address</b>				
Stubbornly high poverty rates	Labour market inefficiencies and barriers	Inadequate financial support via the social security system	Failure to maximise work incentives	Rising cost of essential household goods & services

<b>Intervention: Introduce a Minimum Income Guarantee</b>		
<b>Social Security reform</b>	<b>Labour market and work</b>	<b>Essential services and household costs</b>
<b>Policy mechanism</b>		
<p>A simplified and more generous safety net</p> <p>More predictable income with changes to conditionality regime</p>	<p>Social partnership approach to economy bringing together employers, workers and government</p> <p>Reduction in precarious employment and 'low quality' work</p>	<p>Improved access to essential services, in particular transport and childcare</p> <p>Increased government spending to provide free / subsidised services</p>
<b>Effects</b>		
<p>Change in reservation wage (the minimum rate of pay at which individuals are willing to take a job)</p> <p>Longer job searches, but with potentially better long-term job matching</p> <p>Change in labour supply</p> <p>Increased risk-taking and entrepreneurship</p>	<p>Improved incentive to work as employers pressured to increase wages</p> <p>Improved job retention, job fulfilment and less labour market decoupling</p> <p>Change in hours worked and wages earned</p>	<p>Reduction in household costs</p> <p>Improved ability to participate in the labour market</p> <p>Improved ability to participate in the economy</p> <p>Improved child development and opportunities</p>
<b>Demographic effects</b>		

<p>Work incentives potentially weakened for young people, women (second earners) and households without children</p> <p>Lone parents and single households likely to be incentivised most</p>	<p>Gendered impact on labour market participation</p> <p>Potential for lower overall employment with 'good work' focus – but more workers in high-skilled roles</p>	<p>Increased labour market involvement of parents with young children – particularly women</p> <p>Better ability of rural and other isolated population to access the labour market</p>
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Outputs				
Reduction in poverty	Change in labour supply, work incentives and labour market composition	Higher and more certain incomes for low-income households	Increased consumption (poorer households have a higher propensity to consume)	Better health and wellbeing

## Findings from existing policy evaluation

Many EU countries have some form of ‘Minimum Income Guarantee-type’ scheme in place, but these differ in terms of the generosity, eligibility, conditionality, coverage and purpose. We have identified four broad categories of ‘Minimum Income Guarantee-type’ policies that exist within the EU. We present these four typologies in **Table 1**, which outlines common characteristics and a selection of countries that sit within typologies.

Within these groupings, we have explored eight countries within the ‘protective’, ‘enabling’ or ‘targeted’ typologies in more detail.<sup>2</sup> These case studies have been selected as indicative of either exemplar or novel schemes within the relevant typology model. A summary overview of the case studies findings are outlined in **Table 2** below.

**Table 1:** A typology model of Minimum Income Guarantee-type policies – characteristics and exemplar countries

Typology	Common characteristics	Example countries
<b>Restrictive Minimum Income Guarantee-type schemes</b>	<p>Restrictive Minimum Income Guarantee-type schemes are focused almost exclusively on tackling deep or extreme poverty. With the focus on deep poverty, these schemes have relatively low generosity and coverage and, as a result, they miss a large proportion of people who are in – or at risk of – being in poverty.</p> <p>Restrictive schemes often have a strict time-limit attached to them for how long someone can be in receipt of the support, and supporting this time-limit is an intense focus labour market reintegration.</p>	Greece, Portugal and Croatia.
<b>Protective Minimum Income Guarantee-type schemes</b>	<p>Protective Minimum Income Guarantee-type schemes set a ‘socially acceptable’ income level that all citizens should be entitled to. A specified subsistence payment is then administered to plug the gap between current income and the set income level.</p> <p>Additional payments are usually made depending on the household composition meaning that there is a high level of coverage across different groups. There is often a job-search conditionality, either informally or formally, within a protective Minimum Income Guarantee-type scheme.</p>	The Netherlands, Italy, Spain, Germany, Slovakia.

<sup>2</sup> It is important to note that we have not explored any restrictive Minimum Income Guarantee-type schemes as the design, implementation and aim of these schemes does not align with the Scottish Government’s policy goals for a Minimum Income Guarantee.



<p><b>Enabling Minimum Income Guarantee-type schemes</b></p>	<p>Enabling Minimum Income Guarantee-type schemes usually combine a generous income replacement rate with a broad range of active labour market and inclusion services.</p> <p>While labour-market reintegration is the primary and long-term ambition of enabling Minimum Income Guarantee-type schemes, there is also a clear focus on enabling broader social participation and addressing other social / economic issues alongside labour-market activation.</p>	<p>France, Belgium and most Nordic countries.</p>
<p><b>Targeted Minimum Income Guarantee-type schemes</b></p>	<p>Targeted Minimum Income Guarantee-type schemes are policies that are directed at specific population groups, often because they have been identified as having high 'at risk of poverty rates'.</p> <p>These targeted schemes often combine cash transfers with wider support services and unique conditions that are not widely applied. It is often the case that targeted elements are more generous than the wider social security offering.</p>	<p>Malta, Poland, Hungary, UK (pensioners).</p>

**Table 2:** Summary of Minimum Income Guarantee-type case studies

<b>Spain – National Minimum Income (Ingreso Mínimo Vital, IMV)</b>
Typology: Protective Annual cost: €3bn Key findings: The IMV, compared to other Minimum Income Guarantee-type policies, has a lack of strict conditionality to recognise that the policy is designed to support people in deep poverty who need a ‘cash-first’ approach to addressing challenges without additional requirements. The scheme has been highly successful in reducing deep poverty as a result. However, despite this lack of conditionality, uptake has been an issue and there are challenges monitoring the very limited conditions.
<b>Netherlands - Social Assistance under the Participation Act (Participatiewet)</b>
Typology: Protective Annual cost: €12.7bn Key findings: The Participation Act is one of Europe’s most generous Minimum Income Guarantee-type policies, but suffers from significantly low up-take – especially amongst people who fall just under the threshold which has limited its poverty reduction potential. The Participation Act has a high degree of devolution (with municipalities given control over the level of conditionality) and assessments suggest these different approaches have not had radical impacts on outcomes.
<b>Italy - Citizens’ Income (Reddito di cittadinanza, RdC)</b>
Typology: Protective Annual cost: €8.5 billion Key findings: The RdC proved to be a generally effective tool tackling deep poverty as well as supporting recipients into work through the introduction of a ‘navigator’ system, which provided a designated professional to support and monitor job-seekers. However, the RdC was concluded after only three years, with its strict conditionality meaning it did not meet its stated ambitious objective to address poverty, leaving it open to political challenge.
<b>France - Earned Income Supplement (Revenu de Solidarité Active, RSA)</b>
Typology: Enabling Annual cost: €15 billion Key findings: The RSA is, in theory, a well-designed scheme for poverty reduction, placing a strong emphasis on incentivising labour market participation. However, in practice the scheme mostly rewards part-time work and there is concern that this has created a ‘part-time trap’ in which RSA recipients are constrained to living at the edges

of the poverty line. As such, the scheme has not led to the reductions in poverty that initial evaluations anticipated.

#### Belgium - Integration Income (revenu d'intégration / leefloon)

Typology: Enabling

Annual cost: €1.1 billion

Key findings: The Integration Income has a strong focus on activation and understands that although this should primarily take the form of labour market activation, it should also tackle wider issues of social inclusion as a prerequisite to labour market reintegration. Experience from the pandemic suggests Belgium's system is well-designed to respond to major social and economic shocks.

#### Malta - Tapering of Benefits (ToB) scheme (as part of a wider 'Make Work Pay' package)

Typology: Targeted

Annual cost: €22-25 million (total 'Make Work Pay' cost)

Key findings: Malta takes a relatively unique approach to tapering – rather than being solely income-based, there is a time-limited taper to support long-term unemployed into work. This has been very successful in securing long-term employment opportunities, particularly for lone parents. Much of this success is due to an effective scoping phase identifying key target groups, being implemented in a way that maximised work incentives (best PTRs in EU) and is part of a broader package of 'Make Work Pay' reforms.

#### Poland - Family 500+ child allowance

Typology: Targeted

Annual cost: €9.5bn

Key findings: A universal, non-means testing child allowance for all families with children. The policy led to a rapid and sharp decline in child poverty rates, which helped allowed Poland's social assistance to be targeted on other demographics. However, the implementation of the policy has been costly to achieve this end – both on the public finances but also on having a negative impact of female labour market participation, especially amongst low-income women.

## Policy lessons from case study analysis

From the case study assessments, we can draw out the following seven policy lessons.

**Minimum Income Guarantee schemes are effective at tackling deep poverty, but challenges exist around the impact on ‘shallower’ forms of poverty:** This is largely a result of design challenges including setting appropriate payment levels, applying conditionality regimes, and supporting access to the labour market.

**Work incentives for those who can work are important:** A lack of sufficient work incentives can limit the impact of Minimum Income Guarantee schemes on overall poverty reduction. Inadequate work incentives may lead to benefits traps or distortions in the labour market that do not meet the needs of those who should benefit most.

**Activation within a Minimum Income Guarantee should be understood as not just about labour market activation but broader social inclusion:** Helping address issues around social inclusion – such as lack of language, housing challenges, or substance abuse issues – are as important as helping people seek employment. Some countries emphasise social integration as a vital policy goal in its own terms alongside labour market activation.

**Allowing a significant role for local institutions can improve the effectiveness of the Minimum Income Guarantee:** While national governments set policy direction, local institutions play a significant role in delivering and administering Minimum Income Guarantee schemes. This allows for tailored support and with consistent delivery fosters trust between individuals and support services. Underdeveloped local networks administered by an overly centralised system can lead to policy failure – even in theoretically well-designed systems such as France.

**Ensuring the Minimum Income Guarantee is effectively targeted can make a difference to success:** Even if a Minimum Income Guarantee is intended as a more universal policy open to most people, it is still imperative that specific at-risk populations are kept in mind as the policy is designed. Pre-implementation assessments can help identify at-risk populations and optimise the rollout.

**Success is contingent on the level of take-up:** While strict eligibility and conditionality criteria can play a role in lowering take-up, it was also evident that a lack of strict requirements to individuals accessing support is also not a guarantee of high levels of take-up. Administrative barriers can affect take-up rates, requiring continual reform and adjustment to address these.

**The economic climate a Minimum Income Guarantee is operating in should be considered:** Favourable economic conditions can reinforce the work incentivising effects of Minimum Income Guarantees, while weak economic conditions may hinder their impact. Implementing a Minimum Income Guarantee should factor in how it can respond to the economic climate around implementation.

## Recommendations

Bringing together the findings, there are a number of overarching areas for the design of a Minimum Income Guarantee in Scotland to consider:

### **Setting appropriate targets to monitor the Minimum Income Guarantee's performance:**

The introduction of a Minimum Income Guarantee will play a critical role in supporting the Child Poverty Act, which sets out targets to reduce the number of children experiencing the effects of poverty by 2030. When setting further targets for a Scottish Minimum Income Guarantee, it would be beneficial to include objectives focused clearly on deep poverty and on the broader impacts on lived experience that may not be captured in overall rates of poverty in Scotland reducing. In addition, it is important to be mindful of the potential to create 'poverty traps' given the experiences in other countries.

### **The importance of a multifaceted approach to delivering a Minimum Income Guarantee:**

There is a high degree of uncertainty around whether a Minimum Income Guarantee that only makes use of a single policy lever can lead to the desired outcomes. The case of Malta clearly demonstrates that while one aspect of a Minimum Income Guarantee can have a high level of impact, it often requires the support of other reforms. A blended approach can provide strong policy certainty and make the policy less open to being politicised. A multifaceted approach to implementing a Minimum Income Guarantee allows for it to be monitored and evaluated in terms of which of the various policy areas are having the most impact. This will enable policymakers to more accurately focus future reform and adaptation, as needed.

### **Placing a flexible approach to conditionality at the heart of the Minimum Income Guarantee:**

For those who can work, it is important that a degree of conditionality and work incentivisation is present within the Minimum Income Guarantee's design. However, taking a 'work first' approach can have negative consequences for individuals who need wider social support to allow them to effectively access the labour market. A flexible approach should be taken to conditionality that only applies work search conditions following a thorough assessment of an individual's wider social circumstances and prioritises addressing these before job search activity is required. This makes social inclusion activation and labour market activation more tightly integrated as a matter of policy design.

### **Ensuring the Minimum Income Guarantee recognises and financially supports groups that are currently disadvantaged:**

A Minimum Income Guarantee has the important role of supporting people to undertake roles (e.g. unpaid carer) that provide social and public good and more accurately compensates them. These roles are mostly carried out by women, and the economic value of this work has frequently been undervalued – for example not being captured in key economic indicators such as GDP. The introduction of a Minimum Income Guarantee would therefore recognise the economic value of these roles with adequate financial remunerations. Here, certain target groups would benefit from no conditionality – in recognition that a Minimum Income Guarantee better supports these individuals in undertaking that role rather than attempting to move them into the 'formal' labour market. The Spanish IMV has taken this approach to those

living in deep poverty, but given the Scottish Minimum Income Guarantee will be implemented with a higher threshold this same approach can be applied in a more targeted way to specifically disadvantaged groups.

**Considering the broader economic climate as a Minimum Income Guarantee is introduced:** The economic climate plays a significant role in determining a Minimum Income Guarantee's success. The latest economic insights from the Scottish Government suggests that there is fragility and downside risks in Scotland's labour market in terms of permanent job demand, staff shortages and growth in earnings. A Minimum Income Guarantee can play a key role in acting as a corrective to these concerns, but at the same time should be conscious of the impact this context can have on a Minimum Income Guarantee's potential success. On the other hand, while favourable macroeconomic conditions can accelerate the impact of Minimum Income Guarantee-type policies (such as in Malta) this is by no means a guarantee of success. Ultimately, it will be difficult for a Minimum Income Guarantee to support people into work if there are limited work opportunities.

## **Related Publications**

[Economic Impact of a Minimum Income Guarantee: Analysis of economic theory and policy evidence report.](#)



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The Scottish Government  
St Andrew's House  
Edinburgh  
EH1 3DG

ISBN: 978-1-83601-537-6 (web only)

Published by The Scottish Government, August 2024

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA  
PPDAS1481838 (08/24)

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