



# Basic Income as a policy option: Can it add up?

ELS policy brief, 24<sup>th</sup> May 2017




## Universal Basic Income

### Lots of interest, but also unanswered questions

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**Proposals for a BI are much in the news**

- Several pilots are underway or soon to be:
  - Finland (only national pilot so far)
  - A number of municipalities or regions: eg, Oakland, CA; Livorno, Italy; three districts in Ontario, Canada
  - Concrete proposals discussed or prepared in Québec and France, but also a decisive “no” vote in the Swiss referendum
- Debates or reporting on BI are sometimes about related, but different, reform ideas (e.g., integrating fragmented assistance benefits)
- Idea appears popular in principle
  - 68% support in a recent survey of EU-28...
  - ...but evidence that support fades when people are shown details of feasible benefit amounts or of the tax rises needed to finance it

**This policy note: What could a BI look like in practice?**

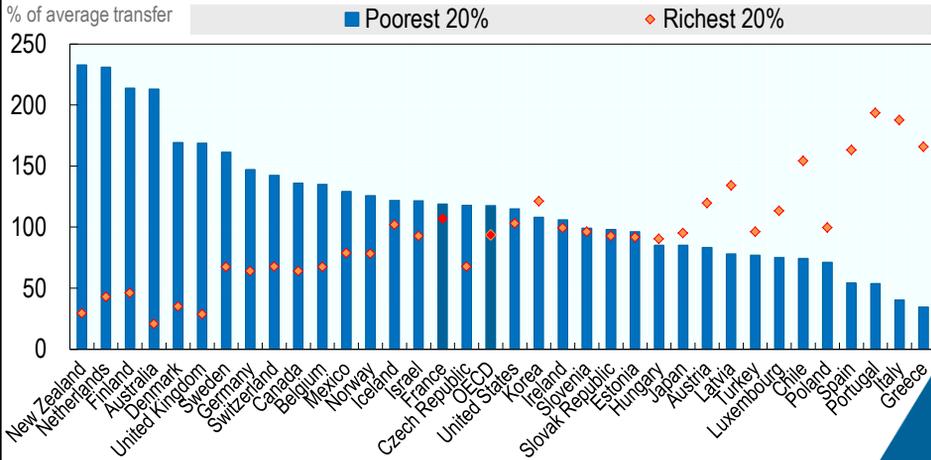
- Costs
- Distributional effects: who would gains or lose?

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## Existing cash support can be patchy and is not always tightly targeted to the poor

Transfers received by working-age individuals in low and high-income groups, 2013 or latest year available



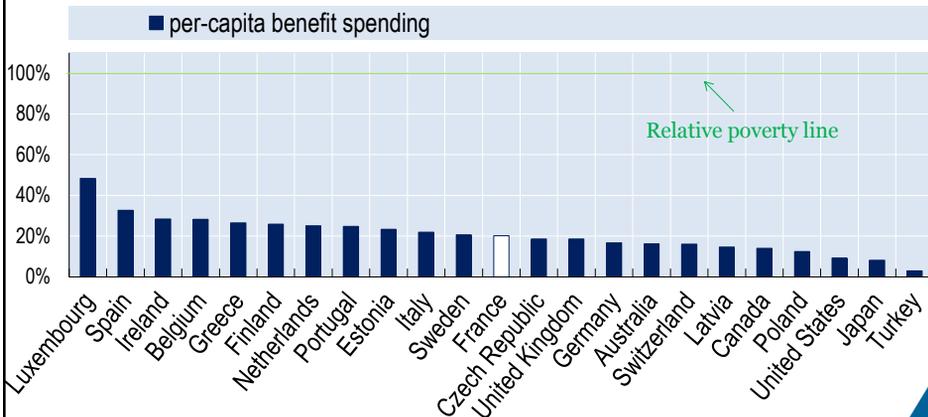
Notes and Source: 18-65, 18-62 in France. Public social cash transfers at the household level. Source: [OECD Income Distribution Database](#)

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## Current benefit spending is not enough to finance a BI close to the poverty line

BI amount that would be equivalent to current spending on working-age benefits 2014, in % of poverty line



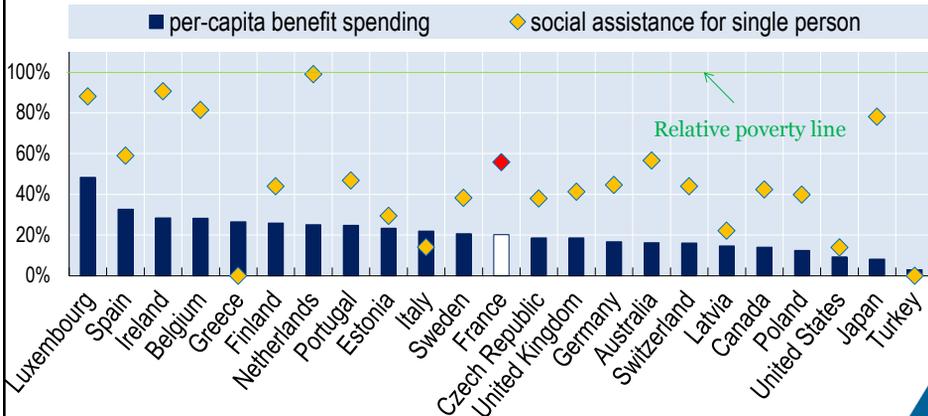
Notes: poverty threshold at 50% of median disposable income. Spending on "working-age" benefits includes expenditures on all public cash transfers minus old-age and survivors categories. Social assistance amounts exclude support for rented accommodation. Sources: OECD Social Expenditure ([www.oecd.org/social/expenditure.htm](http://www.oecd.org/social/expenditure.htm)) and Income Distribution ([oe.cd/idd](http://oe.cd/idd)) databases, OECD tax-benefit models ([www.oecd.org/social/benefits-and-wages.htm](http://www.oecd.org/social/benefits-and-wages.htm)).

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## Current benefit spending is not enough to finance a BI close to the poverty line

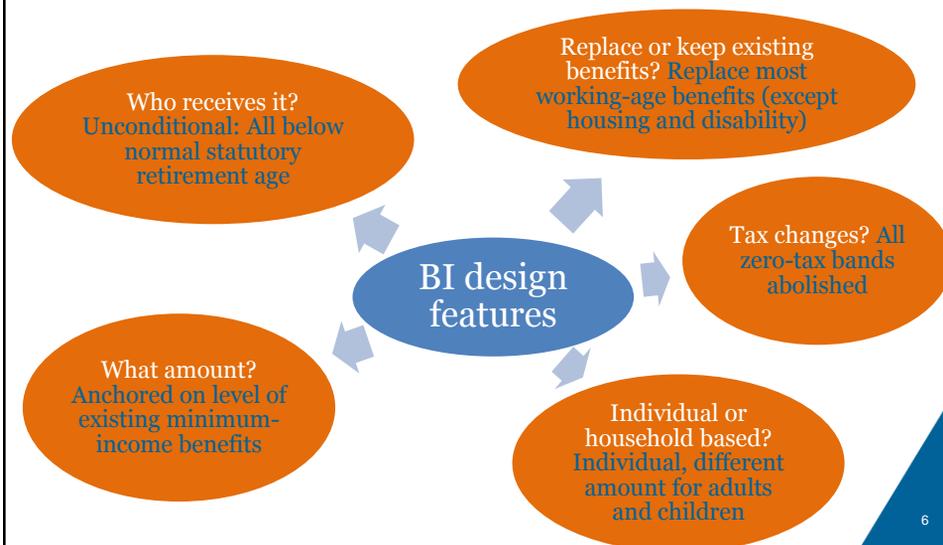
BI amount that would be equivalent to current spending on working-age benefits 2014, compared to poverty line and current social assistance amounts



Notes: poverty threshold at 50% of median disposable income. "non-elderly" benefits is total spending on public cash transfers minus old-age and survivors categories. Social assistance amounts exclude support for rented accommodation. Sources: OECD Social Expenditure ([www.oecd.org/social/expenditure.htm](http://www.oecd.org/social/expenditure.htm)) and Income Distribution ([oe.cd/jdd](http://oe.cd/jdd)) databases, OECD tax-benefit models ([www.oecd.org/social/benefits-and-wages.htm](http://www.oecd.org/social/benefits-and-wages.htm)).



## One possible scenario: Basic Income as main form of social protection for the non-elderly





## A budgetary neutral Basic Income: Calculations for four countries

BI amounts that would cost the same  
as existing benefits and tax exemptions

	BI amount paid to working-age adults	
	monthly	% of poverty line
Finland	€527	49%
France	€456	50%
Italy	€158	21%
United Kingdom	£230	33%

Notes: Hypothetical reform where a Basic Income would replace most existing working-age benefits, as well as the main tax-free allowance / zero-tax band that was in place in 2015. BI amounts are shown after tax. Full details are in the note.  
Source: Secretariat calculations

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## Big tax rises and reductions in other benefits would be needed, even for a modest BI

Aggregate changes in tax revenues and benefit spending

	Reduction in other benefits		Increase in income taxes	
	annual	% of GDP	annual	% of GDP
Finland	-€14.0bn	-6.7%	+€21.4bn	+10.2%
France	-€116.3bn	-5.3%	+€122.0bn	+5.6%
Italy	-€86.3bn	-5.2%	+€33.7bn	+2.0%
UK	-£54.6bn	-2.9%	+£114.4bn	+6.1%

Notes and source: see previous slide.

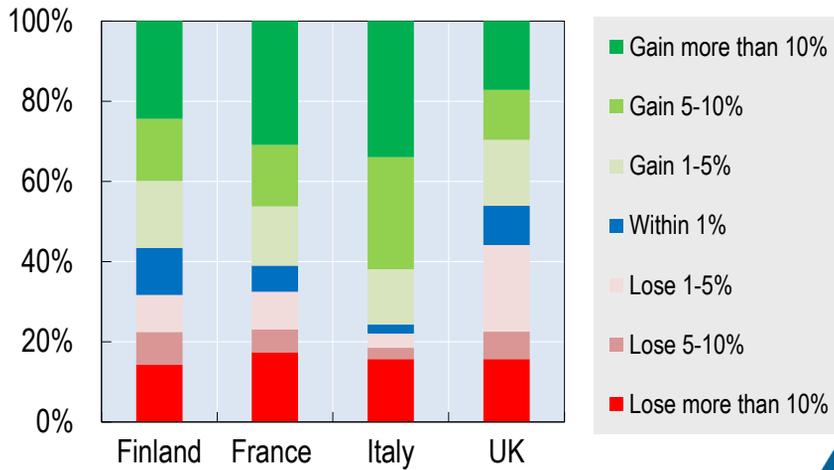
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## Gains and losses:

Few people would see their incomes unaffected

Number of gainers and loser, % of all BI recipients

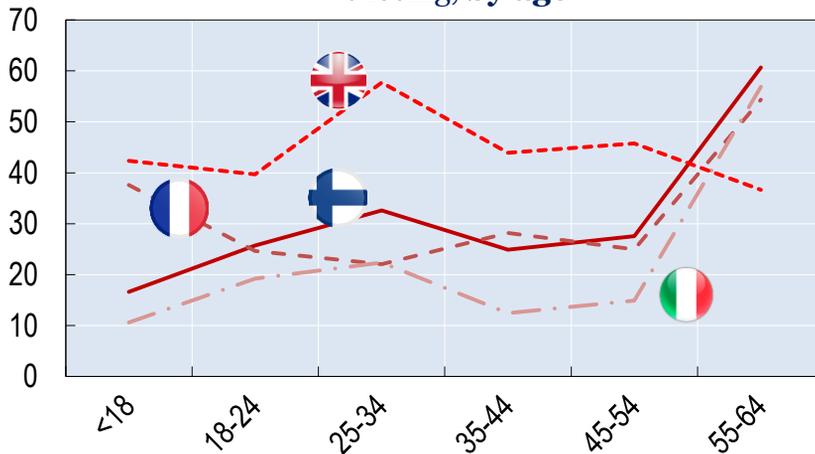


Notes and source: see previous slide.



## Early retirees would lose out when existing benefits are replaced with a modest BI

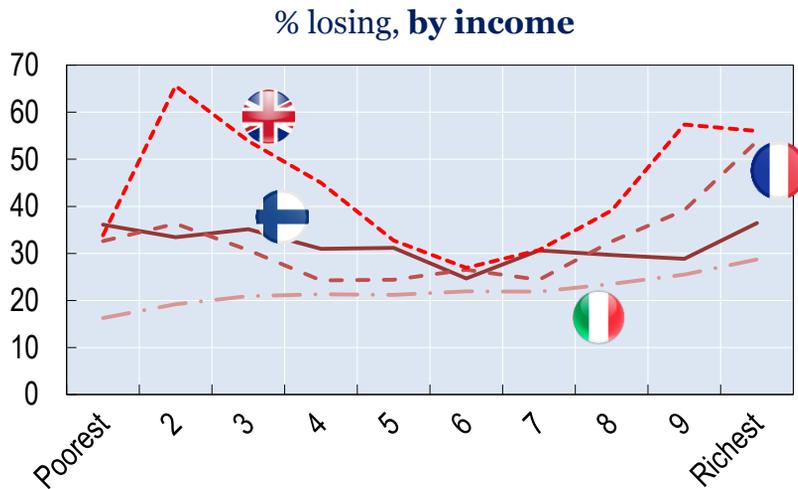
% losing, by age



Notes and source: see previous slide.



## Losses more common among the poor and the rich, middle more likely to gain



Notes and source: see previous slide.

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## Summary: Budget and distributional effects of a comprehensive Basic Income

- **Budget-neutral BI for individuals below normal retirement age requires**
  - a modest BI level, set significantly below the poverty line
  - abolishing most existing benefits
  - substantial additional tax revenues
- BI debate usefully shines light on gaps in social protection systems, and universal benefits **alleviate coverage problems**
- But without targeting, or much higher spending, **poverty risks can increase** as **current benefit recipients lose out**, especially for
  - countries with comprehensive existing social protection
  - older working-age individuals if early retirement is common
  - recipients of unemployment insurance benefits
  - some families with children (eg, lone parents)

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## Could a “partial” Basic Income be an option?

- Instead of introducing a BI, **make existing benefits more accessible?**
- Instead of replacing existing benefits, **introduce BI as an additional transfer?**
- An (even) **lower Basic Income** amount?
- Lower recipient numbers by **tying BI to (mild) conditions?** e.g., “Participation Income”
- Lower initial costs and losses through a **gradual roll-out** of BI? e.g. to new cohorts of young adults
- **Limit duration?** e.g., BI available for a certain number of years during lifetime, perhaps with restrictions

## Thank you

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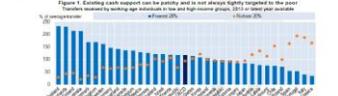
Recent debates of basic income (BI) proposals offer a useful insight on challenges traditional forms of income support are increasingly facing and highlight opportunities for social protection that largely depend on income or employment status. A balanced, “no questions asked” public transfer would be simple and have the advantage that no one would be left without support for its conventional purposes to ensure it is meaningful but thereby, realistic levels would require tax cuts as well as reductions in existing benefits, and it would often not be as effective and not reducing income poverty. These disadvantaged groups would lose out when existing benefits are replaced by a BI illustrating the desirability of social protection without any form of targeting at all. Additionally, and in view of the increasing fiscal and distributional consequences of a fully comprehensive BI, policies towards more universal income support would need to be introduced in stages, and they would require a parallel advance on how to finance a more equal sharing of the benefits of economic growth.

As old idea attracting renewed attention

The concept of a Basic Income (BI), an unconditional transfer paid to everyone in that state in regular intervals, is gaining renewed attention as a means of social protection. The most frequent arguments put forward in favour of BI are that it would be simpler to administer, more targeted, more effective and more cost-efficient than other social protection instruments, and that it would be more effective in reducing poverty and income inequality.

Examples of earlier high-profile campaigns for more comprehensive forms of BI include those in Canada and the United States that in 2016, no country has put a BI to a public vote, a proposal either at the national or sub-national level. The concept is gaining attention in OECD countries, including in those with long-standing institutions of providing unemployment social protection, in particular unemployment benefits.

As growing interest in simple, universal and accessible income support can be linked to major economic trends and to social concerns associated with them, including growing inequality, the time has come to reassess the



This policy brief, a technical background note, as well as all figures and underlying data can be downloaded via [www.oecd.org/employment/future-of-work.htm](http://www.oecd.org/employment/future-of-work.htm)



**A BI lifts some people out of poverty, but others move below the poverty line**

in % of people at or below working age

		In poverty under basic income?	
		No	Yes
In poverty under existing system?	No	UK: 83% France: 89%	Finland: 90% Italy: 83%
	Yes		

Source: Secretariat calculations

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## A BI lifts some people out of poverty, but others move below the poverty line

in % of people at or below working age

		In poverty under basic income?	
		No	Yes
In poverty under existing system?	No	UK: 83% France: 89%	Finland: 90% Italy: 83%
	Yes	UK: 2% France: 2%	Finland: 2% Italy: 4%

↑  
“moving above poverty line”

Source: Secretariat calculations

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## A BI lifts some people out of poverty, but others move below the poverty line

in % of people at or below working age “falling below poverty line”

		In poverty under basic income?	
		No	Yes
In poverty under existing system?	No	UK: 83% France: 89%	Finland: 90% Italy: 83%
	Yes	UK: 2% France: 2%	UK: 7% France: 5% Finland: 3% Italy: 4%

↑  
“moving above poverty line”

Source: Secretariat calculations

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## A BI lifts some people out of poverty, but others move below the poverty line

in % of people at or below working age **“falling below poverty line”**

		In poverty under basic income?			
		No		Yes	
In poverty under existing system?	No	UK: 83% France: 89%	Finland: 90% Italy: 83%	UK: 7% France: 5%	Finland: 3% Italy: 4%
	Yes	UK: 2% France: 2%	Finland: 2% Italy: 4%	UK: 8% France: 4%	Finland: 5% Italy: 9%

**“moving above poverty line”**

Source: Secretariat calculations

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## Implications of a Basic Income for financial work incentives

- Different elements have different effects:
  1. Less means testing → stronger incentives as no longer lose benefits when move into work or increase income
  2. Tax increases → weaker incentives
  3. Generally lower benefit levels → stronger incentives

Effect (1) important for benefit recipients

→ they would face stronger incentives overall

Effect (2) important for second earners in couples

→ they may face weaker incentives overall

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