Universal Basic Income
Lots of interest, but also unanswered questions

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?
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

% of average transfer

<table>
<thead>
<tr>
<th>% of average transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>250</td>
</tr>
</tbody>
</table>

- Poorest 20%
- Richest 20%

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

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) and Income Distribution (oe.cd/idd) databases, OECD tax-benefit models (www.oecd.org/social/benefits-and-wages.htm).
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) and Income Distribution (oe.cd/idd) databases, OECD tax-benefit models (www.oecd.org/social/benefits-and-wages.htm).

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

Who receives it?
Unconditional: All below normal statutory retirement age

Replace or keep existing benefits?
Replace most working-age benefits (except housing and disability)

Tax changes?
All zero-tax bands abolished

What amount?
Anchored on level of existing minimum-income benefits

Individual or household based?
Individual, different amount for adults and children

BI design features
A budgetary neutral Basic Income: Calculations for four countries

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

<table>
<thead>
<tr>
<th>Country</th>
<th>BI amount paid to working-age adults</th>
<th>% of poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>€527</td>
<td>49%</td>
</tr>
<tr>
<td>France</td>
<td>€456</td>
<td>50%</td>
</tr>
<tr>
<td>Italy</td>
<td>€158</td>
<td>21%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>£230</td>
<td>33%</td>
</tr>
</tbody>
</table>

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

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

Aggregate changes in tax revenues and benefit spending

<table>
<thead>
<tr>
<th>Country</th>
<th>Reduction in other benefits</th>
<th>Increase in income taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>annual</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Finland</td>
<td>-€14.0bn</td>
<td>-6.7%</td>
</tr>
<tr>
<td>France</td>
<td>-€116.3bn</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>-€86.3bn</td>
<td>-5.2%</td>
</tr>
<tr>
<td>UK</td>
<td>-£54.6bn</td>
<td>-2.9%</td>
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</tbody>
</table>

Notes and source: see previous slide.
Gains and losses:
Few people would see their incomes unaffected

Number of gainers and loser, % of all BI recipients

- Gain more than 10%
- Gain 5-10%
- Gain 1-5%
- Within 1%
- Lose 1-5%
- Lose 5-10%
- Lose more than 10%

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

% losing, by income

Notes and source: see previous slide.

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

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Source: Secretariat calculations
A BI lifts some people out of poverty, but others move below the poverty line

in % of people at or below working age

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<td>UK: 2%</td>
<td>Finland: 2%</td>
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<td>France: 2%</td>
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“moving above poverty line”

Source: Secretariat calculations

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<td>UK: 7% Finland: 3%</td>
</tr>
<tr>
<td>No</td>
<td></td>
<td>France: 89% Italy: 83%</td>
<td>France: 5% Italy: 4%</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td>UK: 2% Finland: 2%</td>
<td>UK: 8% Finland: 5%</td>
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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