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

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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
• Idea appears popular in principle
  – Eg, 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

What is a Basic Income?
• Debates are sometimes about related, but different, reform ideas (e.g., integrating fragmented assistance benefits)

To fix ideas: 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

- **Poorest 20%**
- **Richest 20%**

Basic Income
Criticisms, potential downsides

- **Inefficient targeting**
  “gains for the rich”, “pay with one hand, receive with the other”

- **High budgetary costs**

- **No automatic stabiliser**
  unconditional benefits cannot be counter cyclical

- **Negative effects on employment**
  erosion of work incentives? “Why would anyone still work?”

- **Engaging jobseekers in active labour-market policies**
  difficult once the link between benefits and active job search is broken

- **Further downward pressure on wages**
  would employers “pocket” a new Basic Income by lowering wages?

→ Concerns are often plausible and justified

→ Yet most are also frequently voiced about existing social protection

→ In practice, costs / benefits are empirical question, vary by country
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 a (low) relative 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.
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 cut-off and to current minimum-income benefit (GMI) 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) and Income Distribution (oe.cd/idd) databases, OECD tax-benefit models (www.oecd.org/social/benefits-and-wages.htm).
A hypothetical scenario: Basic Income as main form of social protection for the non-elderly

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

What amount? *Budgetary neutral*, anchored on level of existing minimum-income benefits

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

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

Tax changes? *All zero-tax bands abolished*
A budgetary neutral Basic Income: Calculations for four countries

<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: OECD calculations using EUROMOD.
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 % of GDP</td>
<td>annual % of GDP</td>
</tr>
<tr>
<td>Finland</td>
<td>-€14.0bn -6.7%</td>
<td>+€21.4bn +10.2%</td>
</tr>
<tr>
<td>France</td>
<td>-€116.3bn -5.3%</td>
<td>+€122.0bn +5.6%</td>
</tr>
<tr>
<td>Italy</td>
<td>-€86.3bn -5.2%</td>
<td>+€33.7bn +2.0%</td>
</tr>
<tr>
<td>UK</td>
<td>-£54.6bn -2.9%</td>
<td>+£114.4bn +6.1%</td>
</tr>
</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

Notes and source: see previous slide.
Early retirees would lose out when existing benefits are replaced with a modest BI.
Losses more common among the poor and the rich, middle more likely to gain

% losing, by income

Notes and source: see previous slide.
A BI lifts some people out of poverty, but others move below the poverty line

in % of people at or below working age

<table>
<thead>
<tr>
<th>In poverty under existing system?</th>
<th>In poverty under basic income?</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>UK: 83% Finland: 90% France: 87% Italy: 83%</td>
<td>UK: 7% Finland: 3% France: 6% Italy: 4%</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>UK: 2% Finland: 2% France: 3% Italy: 4%</td>
<td>UK: 8% Finland: 5% France: 4% Italy: 9%</td>
<td></td>
</tr>
</tbody>
</table>

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)
A “partial” Basic Income instead?

- 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
Sources and references

- “Basic income as a policy option: Can it add up?” via [www.oecd.org/employment/future-of-work.htm](http://www.oecd.org/employment/future-of-work.htm)
- Immervoll, Jenkins, Königs (2015), “Are recipients of social assistance ‘benefit dependent’?” via [dx.doi.org/10.1787/5jxrcmgpc6mn-en](http://dx.doi.org/10.1787/5jxrcmgpc6mn-en)
Additional results
Implications of a Basic Income for financial work incentives

• Different elements have different effects:
  1. No means/work testing $\rightarrow$ stronger incentives
  2. Generally lower benefit levels $\rightarrow$ stronger incentives
  3. Tax increases $\rightarrow$ weaker incentives

Effects (1+2) important for benefit recipients
$\rightarrow$ they would face stronger incentives overall

Effect (3) important for second earners in couples
$\rightarrow$ they may face weaker incentives overall
Thank you

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Sources and references

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