



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

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Herwig Immervoll
Jobs and Income, OECD
Herwig.immervoll@oecd.org

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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)

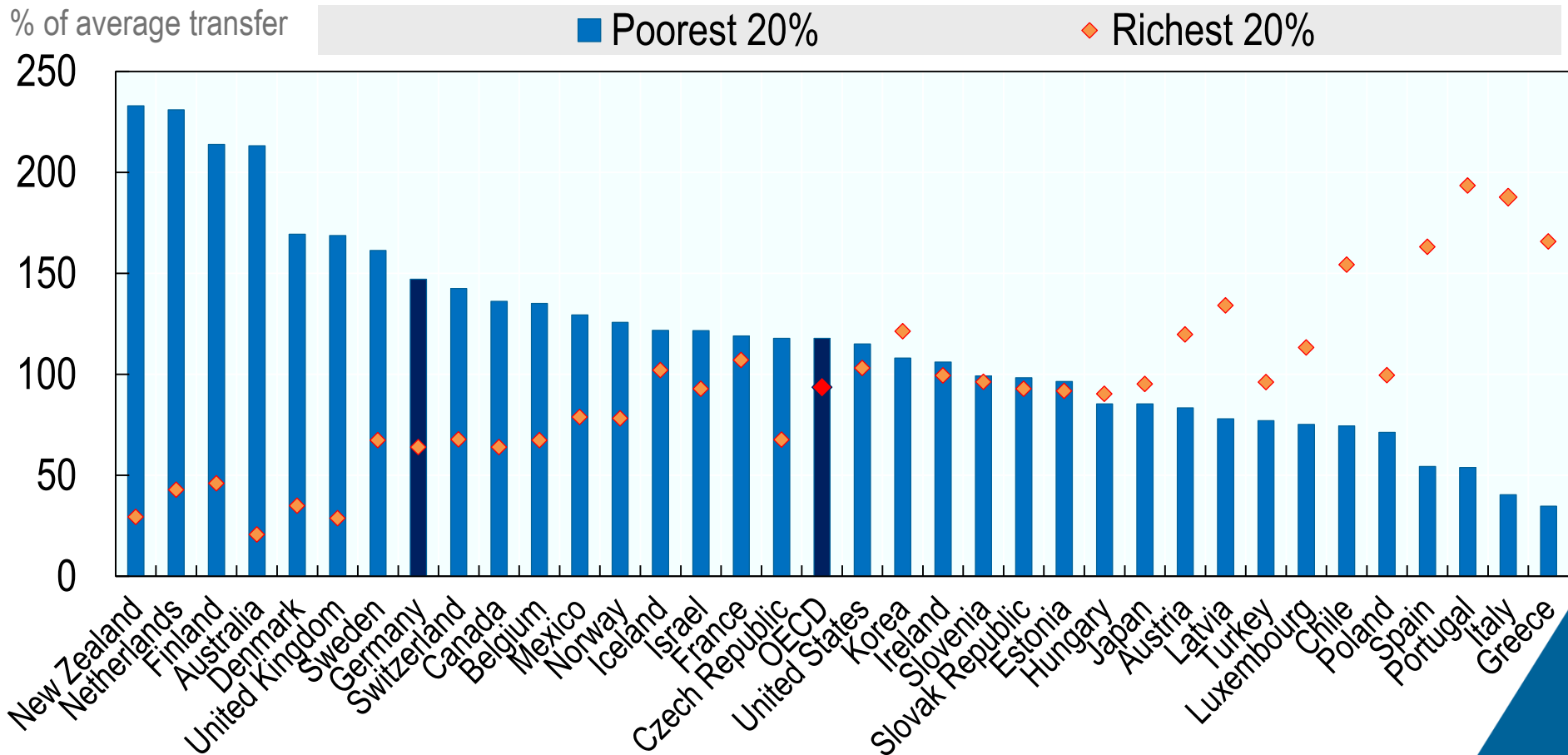
To fix ideas: What could a BI look like in practice?

- 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





Basic Income

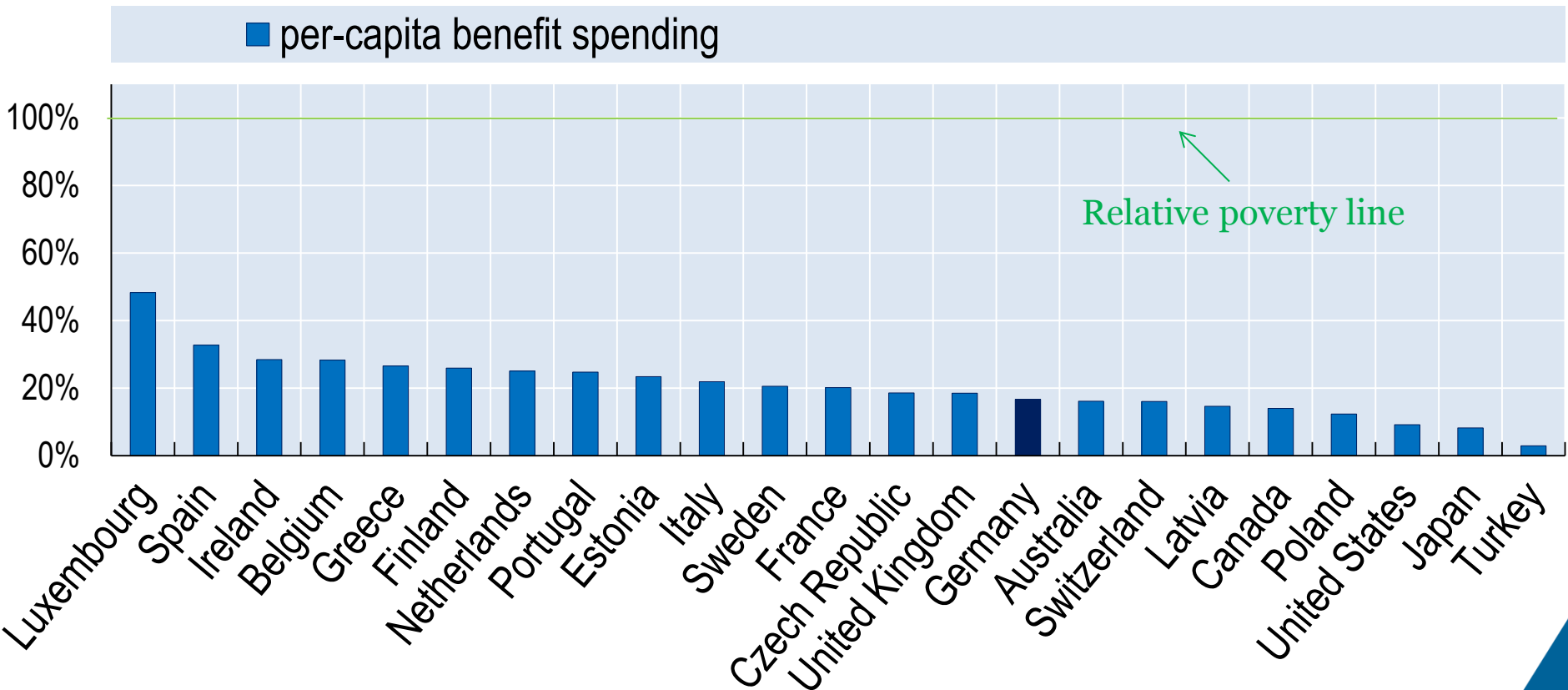
Criticisms, potential downsides

- **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

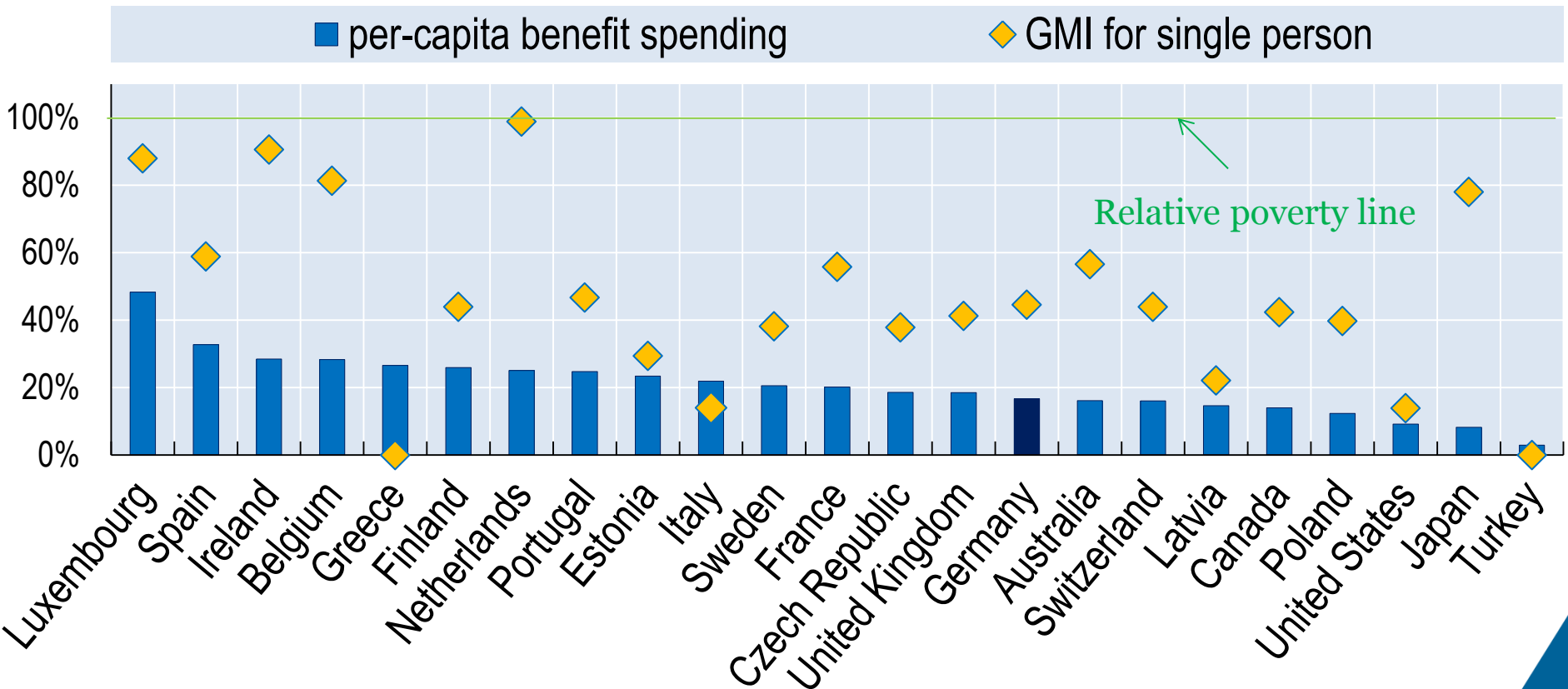


Notes: poverty threshold at 50% of median disposable income. Spending on “working-age” benefits includes expenditures on all public cash transfers minus old-age and survivors categories. Social assistance amounts exclude support for rented accommodation. Sources: OECD Social Expenditure (www.oecd.org/social/expenditure.htm)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



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

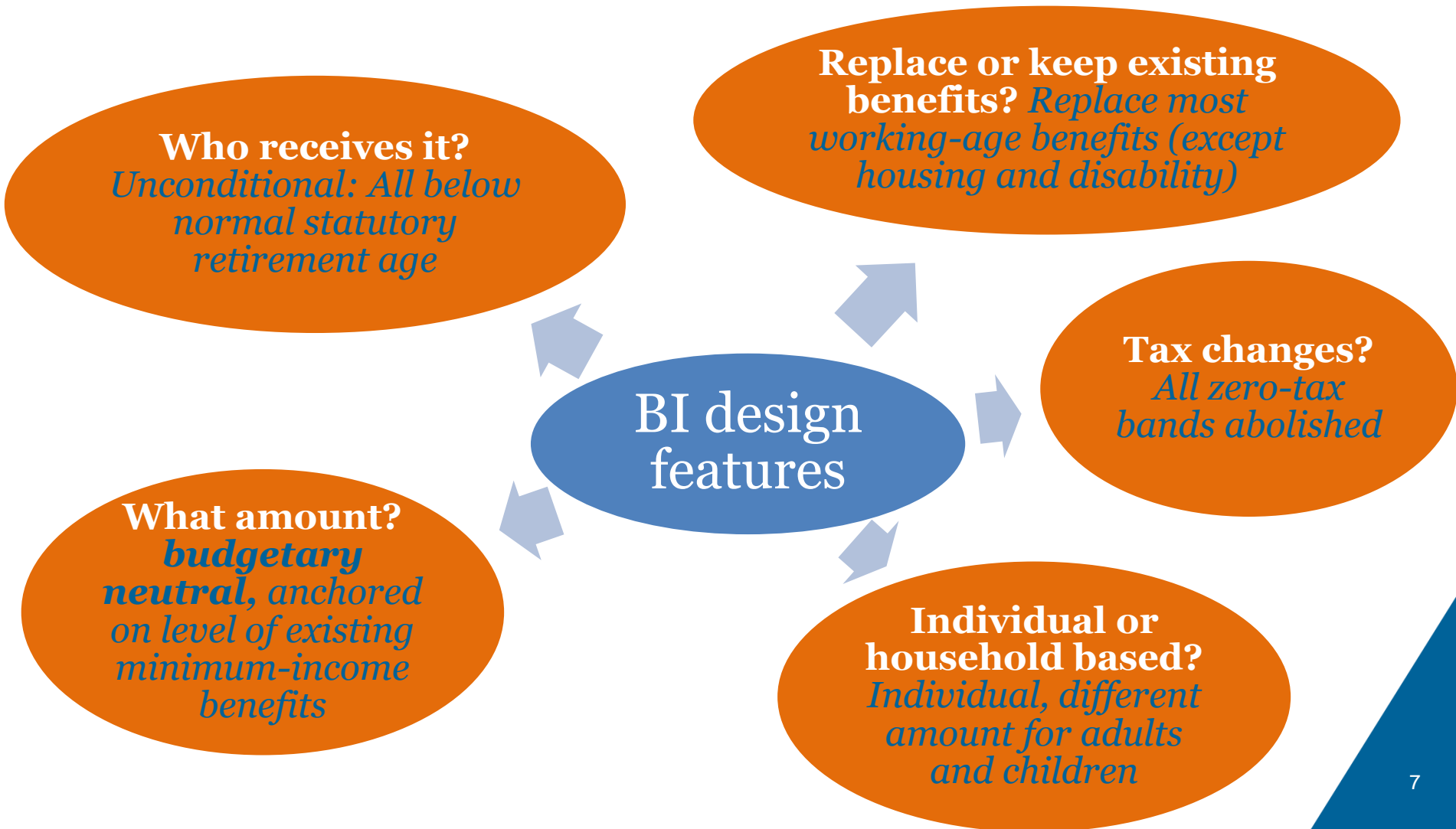
BI amount that would be equivalent to current spending on working-age benefits 2014, compared to poverty cut-off and to current minimum-income benefit (GMI) amounts



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





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: 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

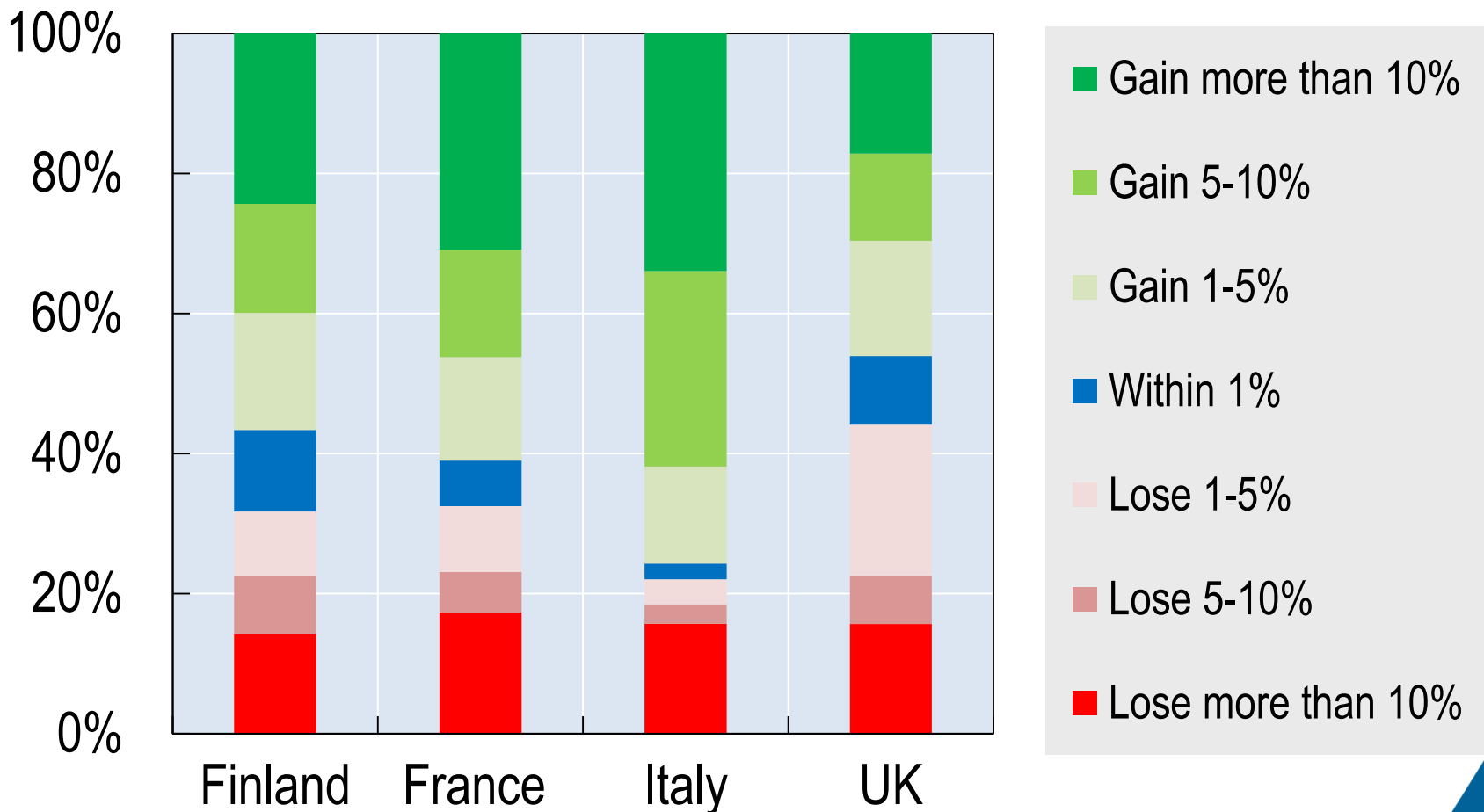
	Reduction in other benefits		Increase in income taxes	
	annual	% of GDP	annual	% of GDP
Finland	-€14.0bn	-6.7%	+€21.4bn	+10.2%
France	-€116.3bn	-5.3%	+€122.0bn	+5.6%
Italy	-€86.3bn	-5.2%	+€33.7bn	+2.0%
UK	-£54.6bn	-2.9%	+£114.4bn	+6.1%



Gains and losses:

Few people would see their incomes unaffected

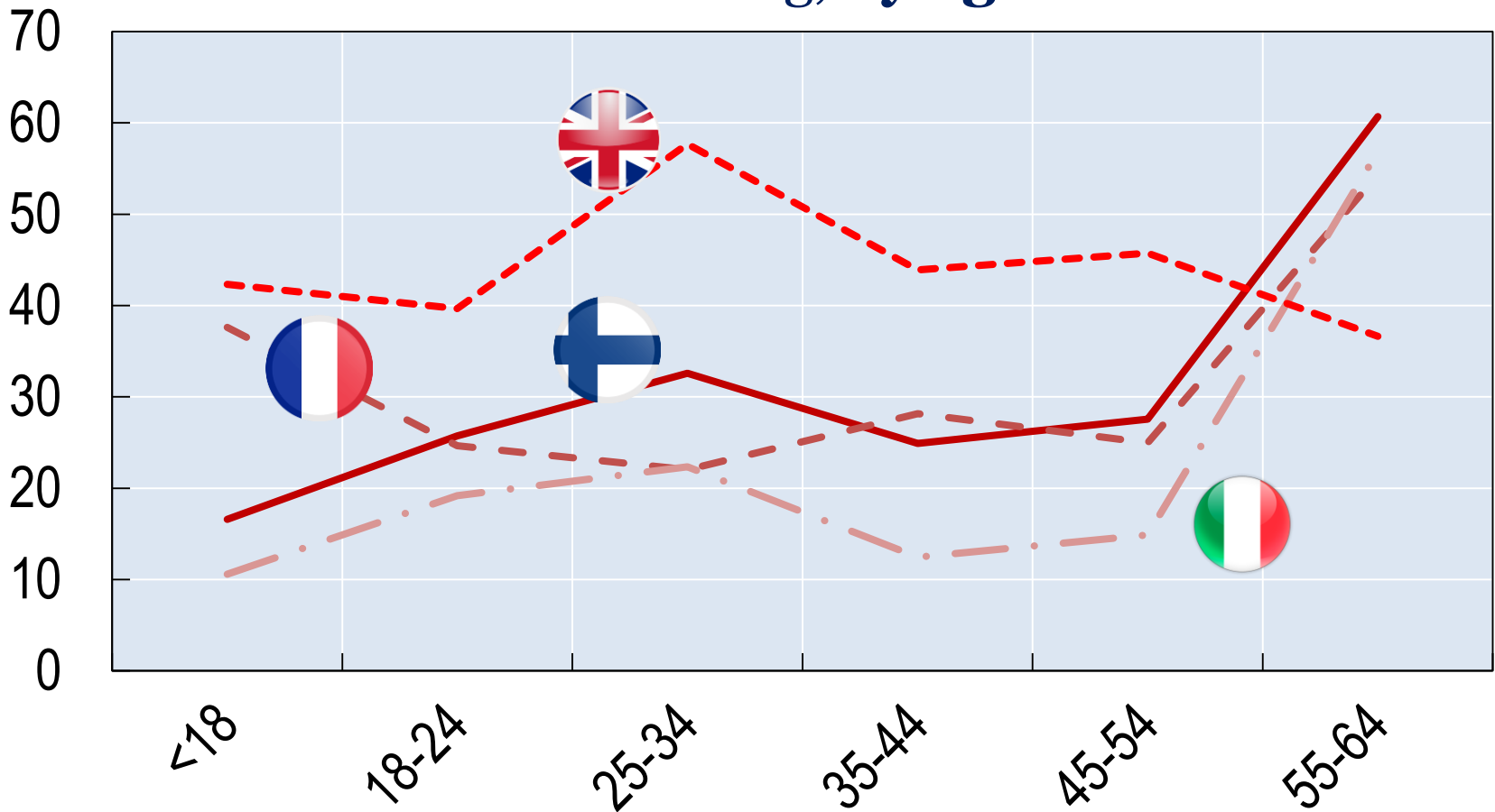
Number of gainers and loser, % of all BI recipients





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

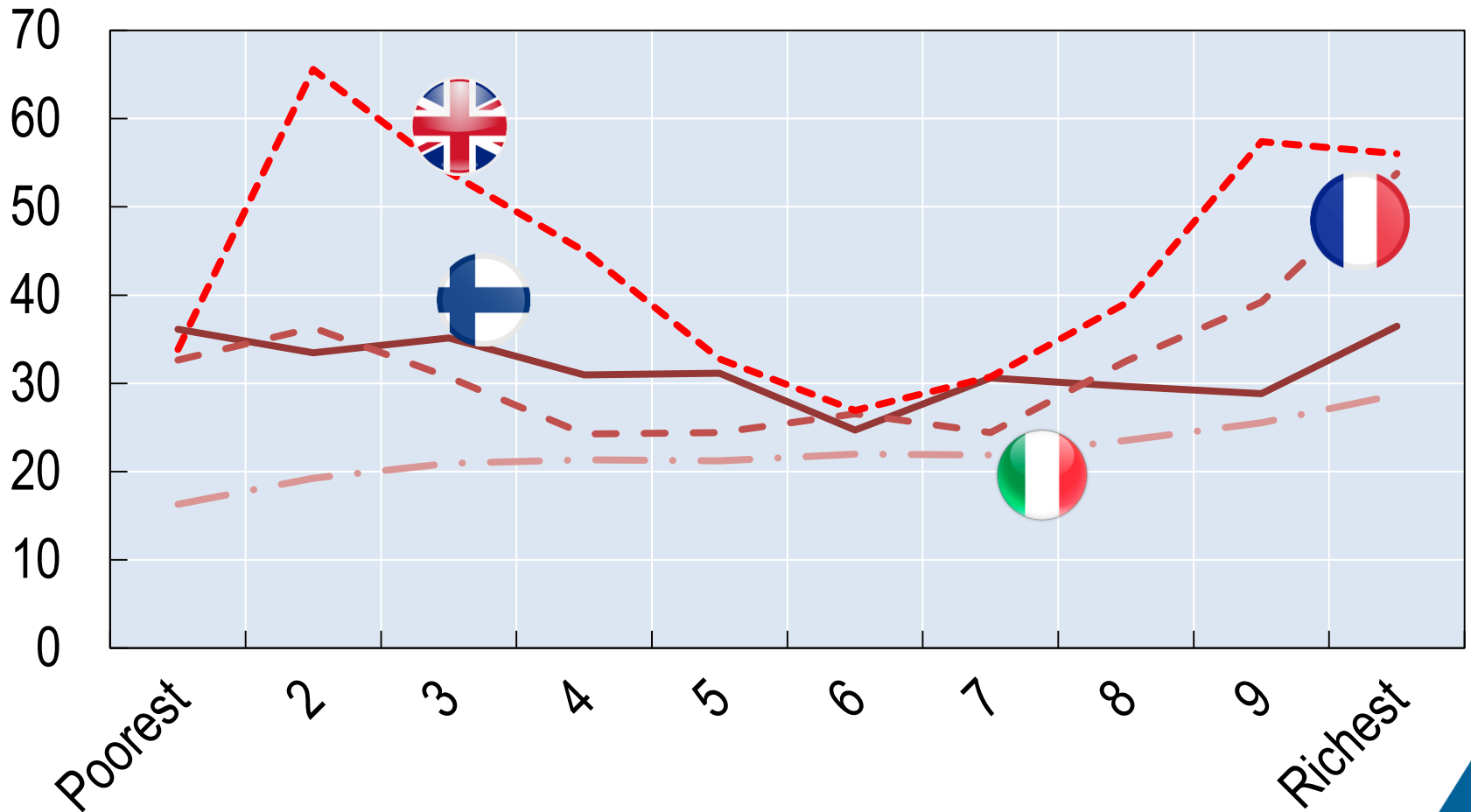
% losing, by age





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

% losing, by income





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: 87%	Finland: 90% Italy: 83%	UK: 7% France: 6%	Finland: 3% Italy: 4%
	Yes	UK: 2% France: 3%	Finland: 2% Italy: 4%	UK: 8% France: 4%	Finland: 5% Italy: 9%

“moving above poverty line”





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)



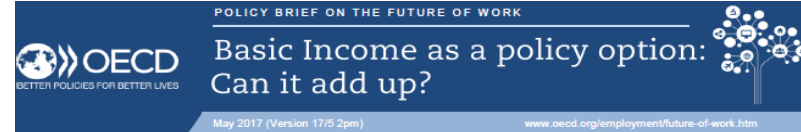
A “partial” Basic Income instead?

- 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



Thank you

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Sources and references

- “Basic income as a policy option: Can it add up?”
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- Immervoll, Jenkins, Königs (2015), “Are recipients of social assistance ‘benefit dependent’?”
via dx.doi.org/10.1787/5jxrcmqpc6mn-en
- Immervoll (2009), “Minimum-income benefits in OECD countries: Policies and challenges”
via dx.doi.org/10.1787/218402763872

Recent debates of Basic Income (BI) proposals shine a useful spotlight on challenges traditional forms of income support are increasingly facing, and highlight gaps in social provisions that largely depend on income or employment status. A universal, “no questions asked” public transfer would be simple and have the advantage that no-one would be left without support. But an unconditional payment to everyone at meaningful but fiscally realistic levels would require tax rises as well as reductions in existing benefits, and it would often not be an effective tool for reducing income poverty. Some disadvantaged groups would lose out when existing benefits are replaced by a BI illustrating the downsides of social protection without any form of targeting at all. Realistically, and in view of the immediate fiscal and distributional consequences of a fully comprehensive BI, reforms towards more universal income support would need to be introduced in stages, and they would require a parallel debate on how to finance a more equal sharing of the benefits of economic growth.

An old idea attracting renewed attention

The concept of a Basic Income (BI), an unconditional transfer paid to everyone, is not new. In several countries, some groups already receive unconditional public transfers. The most important universal payments are child or family benefits (in many European countries, see [OECD Family Database](#)) and basic old-age pensions (in about half of OECD countries, see [OECD Pensions at a Glance](#)).

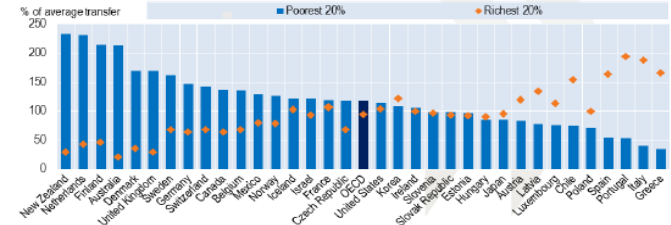
Examples of earlier high-profile campaigns for more comprehensive forms of a BI include those in Canada and the United States. But to date, no country has put a BI in place as a principal pillar of income support for the working-age population. The recent upsurge in attention to BI proposals in OECD countries, including in those with long-standing traditions of providing comprehensive social protection, is therefore remarkable (Box 1).

A growing interest in simple, reliable and accessible income support can be linked to major economic trends and to social concerns associated with them, including growing [inequality](#), the rise in [atypical forms of](#)

[employment](#), also associated with the digital transformation, [the risk of job losses due to automation](#), as well as imbalances between work, family and leisure. In particular, existing social protection systems were, in large part, modelled on employer-employee contracts, stable career patterns, and social compacts, which can appear outdated today, creating challenges for maintaining effective support for all those in need. Even now, when a large majority of workers are still in traditional forms of employment, in around half of OECD countries, fewer than 50% of active jobseekers receive unemployment support ([OECD 2016, Society at a Glance](#)). Lower tier safety nets, such as minimum-income benefits for the poor, are typically less accessible still, also because of the negative stigma that can come with claiming these transfers.

Incomplete coverage is one reason why low-income groups in some countries are less likely to benefit from cash support than better-off families ([Figure 1](#)). In addition, not all social transfers are designed to redistribute from rich to poor.

Figure 1. 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





Additional results



Implications of a Basic Income for financial work incentives

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

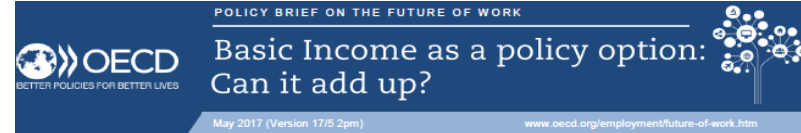
Effects (1+2) important for benefit recipients
→ they would face stronger incentives overall

Effect (3) important for second earners in couples
→ they may face weaker incentives overall



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