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Universal basic income

What is Universal Basic Income?

Universal basic income (UBI) is a form of social security that offers periodic cash payments to all individuals in a country, universally and unconditionally. This is not a new idea. Many OECD countries provide non-contributory, non-means-tested benefits, although only for certain groups (mainly children or pensioners).[1] No country has made UBI the central pillar of its social security system. UBI has received increasing attention recently due to concerns on rising inequality, atypical forms of education and fears of potential massive job losses due to automation.

UBI could provide a broader and more substantial safety net for all

Traditional social security programmes aim to protect citizens from the economic risks and insecurities of life by covering targeted population with pre-defined levels of benefits. However, they are often criticized by undercoverage (people who are eligible but not covered) and leakage (people who are covered are not eligible), despite of administrative efforts. Not all social programmes redistribute from rich to poor. Sometimes, to receive social welfare could be linked with stigma. UBI does not impose social stigma on anyone.

Advocates believe that UBI could provide a broader and more substantial safety net for all citizens, eradicate extreme poverty quickly and effectively, improve wealth redistribution and reduce inequalities. IMF[2] estimated that UBI could reduce the Gini coefficient by five points in all countries on average (before financing). Moreover, UBI does not face a potential poverty trap − benefits cannot be withdrawn if income increases; therefore, individuals would still have incentives to work. In addition, workers would have stronger bargaining power to refuse jobs with unhealthy and unsafe working conditions, as they would have a regular income to raise them out of poverty.[3] Women could benefit from UBI in particular because they are more likely to face worse prospects in almost every aspect of their daily lives – extreme poverty, education, health, employment opportunities and financial inclusion.[4] Furthermore, UBI could offer a policy option in response to increasing digitalization and automation. Technology has changed the structure and nature of work throughout history; although its impacts are notably positive for society, technology could potentially create challenges for certain industries and jobs categories. Lower-paid lower-skilled jobs are more susceptible to being replaced by automation, leading to mass unemployment and increasing the inequality gap between groups. Moreover, such changes in the underpinning of work will call for re-evaluation of welfare policies, which are designed in line with traditional employment contracts as well changes in labour institutions. Consequently, in a society with rising unemployment and inequality, UBI presents itself as a tool to improve the society's overall well-being; it can be argued that the benefit would function as an income replacement for those people who were replaced by technology.

Potential negative behavioural consequences of UBI

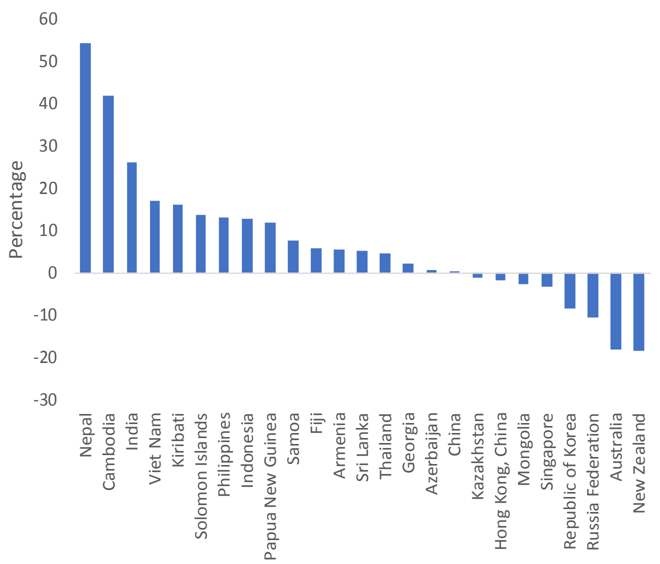
There are major concerns regarding behavioural consequences of UBI. People may spend the cash transfer on temptation goods, e.g. cigarettes, alcohol or gambling. However, India's pilot schemes in rural villages revealed that UBI led to no increased spending on such goods.[5] Moreover, work incentives of workers or job seekers may be weakened, since now they have basic income to prevent them from poverty. OECD's simulations[6] reported that additional tax burdens to finance UBI may reduce work incentive, especially for those already have significant work income. However, incentives to work would be significantly stronger, particularly for lower-income households. The net effect on employment would be small.

Financing for UBI

UBI involves considerable fiscal costs, which depend on the level at which UBI is set. IMF[7] estimated that, if it were set at 25 per cent of median per capita income, the fiscal cost would be about 6-7 per cent of GDP in advanced economies and 3-4 per cent in emerging markets and developing economies. Research in OECD countries would suggest that, without additional taxes, a budget-neutral UBI would be lower than the poverty line of a single individual, that is, not sufficient to eradicate poverty.[8] Focusing on the Asia pacific region, a simple back-of-the-envelope calculation would suggest that the fiscal cost of UBI (targeted at providing $1.90 per day for the working-age population) in the region could be about 14 per cent of GDP on average. In most developing economies, especially countries with special needs, the current public expenditure on social protection is not sufficient to cover such a provision of UBI (see figure below).

This leads to the issue how to finance UBI. This is critical, because how UBI is financed has a direct link with economic activities and the redistributive impacts. Stilwell[9] argued that if UBI comes at the expense of investment

Figure . Fiscal gap to finance universal basic income with existing expenditure on social protection, as a percentage of GDP, based on data from the latest available year



Source: ESCAP, based on data from World Social Protection Report 2017-19. Available from: http://www.social-protection.org/ (accessed 19 February 2018); World Population Prospects 2017. Available from https://esa.un.org/unpd/wpp/ (accessed 19 February 2018); World Bank Indicators database. Available from https://data.worldbank.org/ (accessed 19 February 2018).

Note: The universal basic income (UBI) programme is aimed at providing only the working-age population with $1.90 per day. The fiscal gap reflects the difference between fiscal needs of this UBI project and the total public expenditure on social protection as a share of GDP.

in infrastructure, housing, education or other public services, a cost-benefit analysis may not be favourable to UBI. Given limited fiscal resources, many countries may choose a budget-neutral way, i.e. allocate the current spending on social protection to finance UBI. In this case, the distributive effect will depend on the coverage and progressivity of the existing transfer system. Since the existing expenditure on social protection is not financially sufficient to cover UBI, to spread the expenditure out equally may not be distributionally neutral. Lower-income households could be worse off if they are receiving transfers under the current system.

Additionally, IMF[10] suggested financing UBI though indirect taxes. The net distributive impact could be progressive if income inequality if very high. OECD[11] argued that UBI should be taxable alongside other incomes. Therefore, its net value would fall for those in higher tax bracket; and it could better target lower-income groups, who pay lower tax rates. This could help relieve the criticism of UBI's leakage. With these said, raising tax is likely inevitable to finance UBI. OECD[12] also suggested retaining some targeted cash transfer alongside UBI to support the lower-income groups who lose out from UBI systems.

UBI in the Asia-Pacific region

Nevertheless, many economies in the region are not ready for introducing UBI. Giving the volatility of economies, an expenditure commitment such as a regular universal income could face problems of financial sustainability, especially if the country suffers from cyclical budget deficit. The affordability and efficiency of UBI is also continent upon if it will lead to inflation, which could render the benefits. Administrative challenges are also present, giving that a well-functioning taxation system would be a pre-requisite to implement such policy. Another risk comes from the influx of migration. If people migrate to countries with UBI without contributing first, the sustainability of the policy could be compromised.

In the region, India has piloted some UBI projects in its rural areas. The outcome is positive in increasing economic activities and reducing inequalities. The Indian government is considering scaling it up to the national level. In its annual *Economic Survey 2016-2017*, a feasibility study of UBI was published. The proposed amount to be given is 7,620 rupees (US$ 113) a year (for 2016-2017). This estimation is based on assumption that in practice any program cannot strive for strict universality, so a target quasi-universality rate of 75 per cent was set. This yields a figure of 4.9 per cent of GDP. Although the amount is less than the minimum monthly wage in a city, it is expected to cut absolute poverty from 22 per cent to 0.5 per cent. Such policy would be financed by reorganizing the budget from the existing 950 welfare schemes in India, including subsides for water, food and fertilizers, which add up to roughly 5 per cent of the GDP. However, since the proposed UBI project is quasi-universal, how the selection would be made, either by means-tested or a voluntary opt-out is yet to be defined.

[1] Organisation for Economic Co-operation and Development (OECD), Basic income as a policy option: technical background note, illustrating costs and distributional implications for selected countries (Paris, (2017). Available from www.oecd.org/els/soc/Basic-Income-Policy-Option-2017-Brackground-Technical-Note.pdf.

[2] International Monetary Fund (IMF), *IMF Fiscal Monitor: Tackling In-*

equality (Washington, D.C., 2017). Available from www.imf.org/en/publications/fm/issues/2017/10/05/fiscal-monitor-october-2017.

[3] Miki Malul, John Gal and Miriam Greenstein, A universal basic income: theory and practice in the Israeli case, *Basic Income Studies,* vol. 4, No. 1 (2009), pp. 1-19. Available from http://taubcenter.org.il/wp-content/files_mf/basicincome.pdf.

[4] India, Ministry of Finance, Universal basic income: a conversation with and within the Mahatma, in *Economic Survey 2016-2017* (2017). Available from www.indiabudget.gov.in/es2016-17/echap09.pdf.

[5] SEWA Bharat, *A Little More, How Much It Is... Piloting Basic Income Transfers in Madhya Pradesh, India* (2014). Available from http://sewabharat.org/wp-content/uploads/2015/07/Report-on-Unconditional-Cash-Transfer-Pilot-Project-in-Madhya-Pradesh.pdf.

[6] OECD, *Basic Income as a Policy Option: Can It Add Up?* (Paris, (2017). Available from www.oecd.org/employment/emp/Basic-Income-Policy-Option-2017.pdf.

[7] IMF, *IMF Fiscal Monitor* (see endnote 2).

[8] OECD, *Basic Income* (see endnote 6).

9 Frank Stilwell, A universal basic income: economic sonsiderations, in *Can Less Work Be More Fair? A Discussion Paper on Universal Basic Income and Shorter Working Week* (The Green Institute, 2016). Available from www.greeninstitute.org.au/wp-content/uploads/2016/12/Less_Work_More_Fair_WEB_BM.pdf.

[10] IMF, *IMF Fiscal Monitor* (see endnote 2).

[11] OECD, Basic income (see endnote 1), and *Basic Income* (see endnote 6).

[12] OECD, Basic income (see endnote 1).

The MPFD Policy Briefs aim at generating a forward-looking discussion among policymakers, researchers and other stakeholders to help forge political will and build a regional consensus on needed policy actions and pressing reforms. Policy Briefs are issued without formal editing. This issue was prepared by Zhenqian Huang, benefetting from inputs by Daniel Jeongdae Lee and Yasmin Winther De Araujo Consolino Almeida, under the guidance of Hamza Ali Malik. For further information on this issue, please contact Hamza Ali Malik, Director, Macroeconomic Policy and Financing for Development Division, ESCAP (escap-mpdd@un.org).

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