

Basic income: Arguments, evidence, prospects

SUMMARY

Automation, digital revolution, globalisation and the ongoing economic crisis have led to higher unemployment, more job insecurity and weakened social standards in many countries. In order to cope with increased inequality and poverty, the topic of (unconditional) basic income has been attracting attention in Europe. In a recent representative poll, 64% were in favour of a basic income.

Proponents of basic income argue, not least, that it would have positive effects on education and job selection criteria as it promotes individual freedom, emancipation for women, (social) justice and poverty reduction. Basic income could help in redistributing the benefits from automation and digitalisation. As the concept of basic income is simple and transparent, it could replace the complex welfare system. Critics of (unconditional) basic income say the concept is too expensive to implement and that its financing would require higher taxes. Higher taxes and consumer prices would in turn harm the poor. Furthermore, unconditional basic income could reduce the willingness of people to work and attract undesired immigration.

There seems to be a gradual trend away from unemployment insurance to income insurance. EU Member States such as the Netherlands and Finland have announced that they are testing basic income at micro level starting in 2017. Studies on micro-experiments have mainly confirmed the positive effects of (unconditional) basic income on reducing poverty and inequality, but questions on how to finance and implement basic income on the macro level remain.



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Glossary

Hawthorne effect: people who are the subjects of an experimental study often change or improve their behaviour simply because they are being observed and evaluated, and not because of changes in the experiment parameters or stimulus.

Means-tested / non-means-tested benefits: means-tested allocations (e.g. unemployment aid, disability benefits, rent rebates, food stamps) describe [transfers](#) to individuals and families below a certain income and wealth level. Need has to be proven by those receiving them. Non-means-tested transfers do not require proof from the claimant; they often include cost-free social services provided by public authorities (e.g. basic education at public schools or family health insurance schemes).

Negative income tax: a guaranteed minimum income plan or public [subsidy](#) provided to people with low incomes, ideally replacing complex welfare bureaucracy. Negative income tax would allow claimants to receive income through the simple filing of tax returns. But unlike other return-filers who would make payments to the tax authorities, beneficiaries would receive payments ('negative taxes') from the tax authority, based on how far their incomes fell below the threshold for tax liability.

Poverty trap: a [mechanism](#) which makes it difficult for people to escape poverty. When individuals lack income or capital to escape poverty, they may also find it difficult to acquire it, creating a self-reinforcing cycle of poverty.

Background

Over recent years, automation, the digital revolution, globalisation and the ongoing economic crisis have led to higher unemployment, more job insecurity and weakened social standards in many countries. In a bid to cope with increased inequality and poverty, the topic of (unconditional) basic income has been attracting attention in politics, and in public opinion, in Europe and abroad. The idea of a basic income for every citizen is appealing, especially on account of its simplicity, and the idea that it could replace often costly and complex social welfare systems (in Western countries) and contribute to more equality. At the same time, however, it raises issues about costs and practicality and also poses questions of an ethical and philosophical nature.

While Switzerland recently rejected the introduction of a basic income in a referendum, Canada and the Netherlands have been implementing their first experimental basic income schemes, and Finland has announced a two-year test-phase starting in 2017. Around the world, a number of private sponsors and crowd-funders have also started test projects on (unconditional) basic income schemes.

Basic income: definition, arguments, expected effects

According to the popular [definition](#) offered by Philippe Van Parijs, a basic income is 'income paid by a political community to all its members on an individual basis, without means test or work requirements'. It is paid in cash rather than in kind by a government from publicly controlled resources. There is no exact GDP per capita ratio or figure regarding the basic income amount, this would depend on each country's public budget plan, welfare system costs and [purchasing power parity](#). Depending on the scope, duration and amount, the costs would be covered by the (partial) replacement of often costly welfare systems and/or by an increase in value-added tax (VAT) or direct taxation.

There are several types of income maintenance policy and the terminology can be confusing. 'Unconditional' means there are no preconditions (e.g. limits on owning

property, previous contributions to the welfare system, obligation to work in return) to receive a basic income. 'Universal' means that there are no selection criteria (e.g. age, gender, place of residence). The terms are often used interchangeably. Basic income is sometimes referred to as a 'citizen income' or 'national', 'social' or 'citizens' dividend'. In the context of the EU, some scholars call it a 'European Dividend'. Guaranteed minimum income or minimum income guarantee policies envisage transfers to assure a minimum level of income. They often rely on selection criteria (e.g. only single mothers under a certain age) or social conditions (e.g. work requirements).

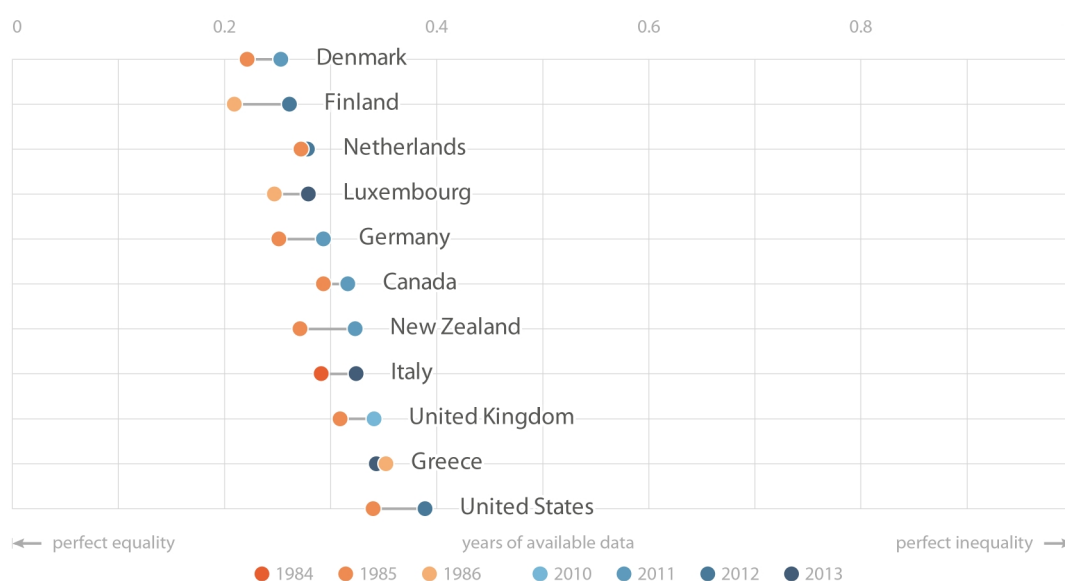
'If you have to pay taxes for [existing](#), you should be guaranteed a basic minimum income for surviving.'

C. Robert Gibson, Journalist

The idea of paying everyone an unconditional amount of money is based in part on the ideas of Thomas Paine (1737-1809), one of the United States' founders, who called for compensation for the original 'owners' of the exploited common resources (by definition, everyone) expropriated when land holding became private. The (annual) citizens' dividend paid by the [Alaska Permanent Fund](#) reflects Paine's idea at its best.¹

Today, the technical and digital revolution as well as globalisation have been opening up a [gap](#) between total output and the income earned by workers. Estimates [suggest](#) that it will be technically possible to automate between a quarter and a third of all current jobs in the western world within 20 years. This could make a sizeable share of the working population redundant. Some scholars therefore [argue](#) that governments should bridge the gap by issuing every citizen with a national or citizens' dividend.

Figure 1 – GINI coefficient



Disposable income, after taxes and transfers.

Data source: OECD.

Arguments in favour of basic income

In general, advocates of (unconditional) basic income argue that the concept is simple and transparent. It generates only low administrative costs and could replace the need for a complex welfare system. Unconditional basic income is expected to have positive effects on labour supply, education and job selection criteria as it increases individual freedom, emancipation for women and (social) justice. Furthermore, basic income is not only an efficient buffer against shocks and systemic risks in the world economy, but might also help redistribute the benefits of automation and digitalisation. The absence

of conditionality could also eliminate poverty traps and contribute to more social equality, as statistics show (see Figure 1) that in many OECD countries inequality has increased over the last 30 years.²

Anthony B. Atkinson [states](#) that civilised societies should ensure a decent minimum income as they have a duty to provide social protection. For Atkinson it is also important that the minimum is defined in terms of income, not consumption.

Ugo Colombino [argues](#) that typical means-tested regimes not only stigmatise their recipients, but often involve chaotic overlapping of interventions that do not promote transparency. These multiple measures may open up opportunities for fraud and error.

Joze Mencinger also takes monetary aspects into account, arguing that a universal basic income is much better than [quantitative easing](#) as a way to lessen the social effects of a period of economic crisis and increase aggregate demand.³

Arguments against basic income

Critics of (unconditional) basic income employ ethical, philosophical and rational arguments, too. One main criticism is that unconditional basic income is expensive to implement as it requires higher taxes to finance it (if social welfare benefits are not cut down in return). Increasing taxes or VAT would translate into higher consumer prices, harming the finances of poor people in particular. In addition, the introduction of a basic income would require a complex restructuring of the taxation, social insurance and pension systems. Furthermore, unconditional basic income might lead to a reduction in individuals' effort, motivation and autonomy. In particular unconditional schemes might not only reduce willingness to work. They would, in macro-economic terms, reduce the labour supply (of non-recipients of basic income) as higher taxes would be needed to finance the transfer – this could cause a rise in the shadow economy and give incentives for tax avoidance and evasion. Sceptics also fear that (unconditional) basic income would attract undesired immigration.⁴

Henning Meyer has two additional points. He argues that one should not underestimate the [social value of work](#) and that an unconditional basic income would be an inefficient use of public resources as it would also have to be paid to billionaires.

Jason Furman, chairman of the US Council of Economic Advisers, [argues](#) that a government has first 'to foster the skills, training, job search assistance and other labour market institutions to make sure people can get into jobs.' He also thinks that a universal basic income would exacerbate income inequality, so he suggests reforming the existing tax-and-transfer system to make it more progressive. Henning Meyer argues in the same vein by saying that people should be paid for working (and not for not working). He proposes that the EU should set the framework for a national [job guarantee](#) (like the EU youth guarantee).

There are also some anti-poverty advocates that have – to some extent – a critical stance towards unconditional basic income if it would replace all existing social allowances. There are some benefits that could be made universal, but people with [disabilities](#), for instance, have special requirements that no one else has.

In addition, some critics argue that unconditional basic income would benefit the 'undeserving', but money for nothing might be socially corrosive. Furthermore, a basic income could lead to the political and economic irrelevance of the [working class](#).

Experience and evidence from selected countries

Both advocates and critics of a universal basic income admit that there is only limited empirical evidence to back up their arguments. However, a couple of micro-experiments (limited in space, duration and focused on the local level) have shown results that are encouraging from the perspective of the proponents. These experiments might however be subject to the 'Hawthorne effect'.

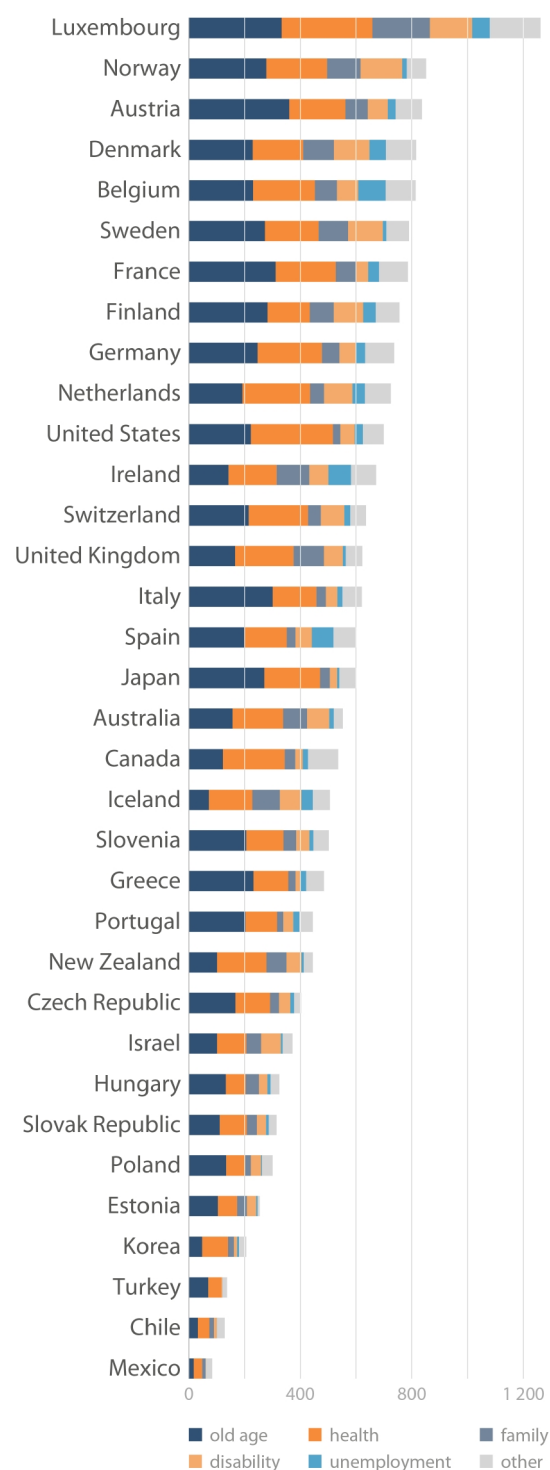
Basic income policies have been tested in the USA, Canada, Namibia and elsewhere.⁵ In Namibia, the guaranteed basic income experiment from 2008 and 2009 showed a number of interesting [results](#). A basic income increased entrepreneurship and households' purchasing power. It also reduced the dependency of women on men, and the number of children deemed underweight fell from 42 to 10%.

Between 1968 and 1980, the USA ran negative income tax experiments where families were assigned to treatment and control groups, and tracked over several years. Regarding the effect on work, it was shown that during the experiments no more than 5 to 7% of primary earners reduced their working hours.⁶

From 1974 to 1979, the Canadian town of Dauphin in Manitoba tested a guaranteed annual minimum income scheme for eligible families and residents (the 'Mincome' experiment). One of the aims was to analyse the impact on work behaviour. In her [quantitative analysis](#), Evelyn L. Forget could show that only two groups of people worked less: adolescents and new mothers. For full-time employees there was no decline. Other interesting findings included lower hospitalisation rates (especially related to mental health) and better high-school completion rates, in particular for 16 to 18 year old boys. Furthermore, the programme brought most recipients above the poverty line.

These micro-studies demonstrate a positive correlation between basic income and health, education and social inclusion. This might be key for future considerations as in many OECD countries governmental spending on social assistance is enormous (see Figure 2). In this context, Ugo Colombino [refers](#) to US estimates: the administrative cost of a non-means-tested transfer such as a basic income is around 1 to 2%. Means testing costs four or five times that amount.

Figure 2 – Social expenditure, 2011



Per capita, at constant prices (2005) and constant purchasing power parity (2005), in US\$.

Data source: OECD.

Current and upcoming basic income experiments

Over the last three years, several countries in Europe and beyond have announced basic income tests at governmental or local level. Private donors and crowd-funders are currently also planning or implementing micro-projects in the US ([Silicon Valley](#)), [Kenya](#), [Brazil](#) and [Germany](#) for instance.

Currently, Canada is [envisaging](#) partly re-introducing the guaranteed minimum income. In the Netherlands, meanwhile, several municipalities have announced plans to experiment with basic income. The municipal plans [differ](#) in size and duration, but share some common features: the programmes are restricted to a selection of recipients of social assistance benefits. In a two-year test period starting in 2017, the city of [Utrecht](#), for example, will give 250 Dutch residents a flat sum of €960 per month.

In a binding referendum in June 2016, Switzerland [rejected](#) (by 77% to 23%) an amendment to the constitution introducing an unconditional basic income scheme to help ensure decent living conditions. The rejection came as no surprise as both the Federal Government and Parliament, as well as some trade unions and businesses, had recommended a 'no' vote. The proposed constitutional article did not mention a specific amount, but the proponents had provided some [indications](#). They assumed that each adult would receive CHF 2 500 per month (some €2 270), while children would be entitled to CHF 625 per month (approx. €570). The CHF 2 500 [equalled](#) about 38% of Switzerland's GDP per capita – for critics, these costs would have been too high.

While in France the National Assembly and Senate are currently looking into unconditional basic income and conducting an economic [feasibility study](#), Finland already has already taken the decision to launch a basic income experiment. The [goal](#) is to combat work disincentives, to streamline the benefit system, to reduce the administrative burden and do more to adapt social policy to the labour market. The two-year test-phase has a total budget of €20 million and will start in 2017. In its [preliminary report](#), Kela, the Social Insurance Institution of Finland, recommended adopting a partial basic income model instead of an unconditional basic income or a negative income tax scheme (because of cost reasons and access to a comprehensive registry of incomes). According to Kela, this model would 'consolidate many of the existing benefits offering basic economic security, while earnings-related benefits would remain largely unaffected'. Owing to financial restrictions, the [sampling](#) will focus on low income households and some specific groups such as freelancers and the long-term unemployed. The sample size will be up to 2 000 participants, they will receive between €550 (the minimum level of basic benefits) and €750 per month.

Discussions and positions at EU level

The European Union has hosted or co-financed several conferences and workshops, for major stakeholders from business, trade unions, interest groups and networks – such as the [Basic Income European Network](#) (BIEN), [Unconditional Basic Income Europe](#) (UBIE), the [European Minimum Income Network](#) (EMIN) or the [European Anti-Poverty Network](#) (EAPN) – to discuss income support and basic income schemes.

The European Commission supports (national) [income support](#) policies. According to the Commission, income support comprises all measures taken by national authorities in Member States to provide their citizens with an adequate income via different benefit schemes (e.g. unemployment benefits, family and child benefits, disability benefits). In its [Social Investment Package](#) (SIP), the Commission recalls that the level of the

minimum income should be high enough for a decent life and at the same time help people to be motivated and activated to work. The Commission identified adequacy, coverage and non-take-up as the main challenges regarding minimum income schemes.

In December 2013, the European Economic and Social Committee (EESC) adopted an [opinion](#) on European minimum income and poverty indicators. The EESC's points include the argument that 'establishing a European minimum income will help to ensure economic and territorial cohesion, protect the fundamental rights of the individual' and 'redistribute wealth and income fairly.' It also stresses 'the urgent need' for an adequate minimum income in the EU under a framework directive and calls on the European Commission to examine possibilities for setting up a European Fund.

In April 2014, the EESC hosted a [conference](#) on minimum income schemes across Europe where the topic of (unconditional) basic income was also discussed. It was proposed to introduce a basic income at the EU level. The Charter of Fundamental Rights, the Lisbon Treaty with its Article 2 on human dignity and equality and Article 3 on social exclusion and social justice, and the Treaty on the Functioning of the European Union (which includes several articles on the coordination of the Member States' social policies) would serve as legal framework. Most likely, such a basic income would not be the same amount in all Member States, but would be calculated according to each country's purchasing power parities. Sources of financing the EU-wide introduction of basic income would be most likely to be national VAT or a future European tax on financial transactions, luxury goods, carbon emission allowances.

According to Joze Mencinger, a universal basic income at EU level is only realistic if some preconditions are fulfilled, such as the creation of a fiscal union, the unification of tax rates, and the distribution of tax revenues to EU citizens.⁷

The European Parliament (EP) called, for instance in a 2010 [resolution](#), for an EU-wide minimum income to help people to get out of poverty. The (means-tested) minimum income would act as a complement in cases of unemployment and where pensions do not provide the means to live decently.

During a meeting on pan-European minimum income schemes organised by the European Parliament's Employment and Social Affairs Committee (EMPL) in October 2015, stakeholders [discussed](#) an action plan for 2016, [calling](#), inter alia, for an EU framework directive on minimum income.

In June 2016, the EMPL Committee sent a [question](#) for oral answer on minimum incomes schemes in the EU to the Commission asking, among other things, how the Commission defines 'adequate income' and when it will assess minimum income schemes in the EU and promote benchmarking and best practice.

Outlook

The micro-studies presented in this briefing have on the whole confirmed the positive effects of (unconditional) basic income on reducing poverty and inequality. However, questions remain as to how to calculate the amount of basic income in a fair way, finance its costs and put it into practice on the macro level.

The topic of basic income has gained popularity with the European public too. In a [representative poll](#) on basic income from April 2016 with 10 000 participants across Europe, 64% said they would vote in favour of the idea, while 24% were against it and 12% abstained. The idea is most popular in Spain (71%) and Italy (69%). Opponents

were worried that people would stop working (43%), that basic income would attract immigration (34%), that it is not affordable (32%) and that only the needy should receive assistance (32%). Proponents said that reduced anxiety about basic financing needs (40%) and more equal opportunities (31%) were the most convincing arguments. Interestingly, only 4% of the respondents said that they would stop working if they had a basic income. In addition, 7% said they would reduce their working time, while another 7% said they would look for another job.

As the negative referendum in Switzerland and the polls show, the cost argument is one of the most persuasive for opponents. Therefore, experts such as Philippe Van Parijs, [propose](#) that the national unconditional basic income should not be higher than 15% or 20% of GDP per capita (while means-tested benefits should be maintained).

In September 2016, the EP – supported by all major political groups – will debate and probably adopt another [resolution](#) on social inclusion, poverty and minimum income schemes in the EU. It seems that there is gradual [trend](#) to move from unemployment insurance to income insurance.

Main references

- Atkinson, Anthony: [Basic Income: Ethics, Statistics and Economics](#), Oxford: Nuffield College, 2011.
- Colombino, Ugo: [Is unconditional basic income a viable alternative to other social welfare measures?](#), *IZA World of Labor* 2015: 128, February 2015.
- Flowers, Andrew: [What would happen if we just gave people money?](#), 25 April 2016.
- Mencinger, Joze: The revenue side of a universal basic income in the EU and Euro area, *Danube: Law and Economics Review* 6:3 (2015), pp. 159-174
- Van Parijs, Philippe: [Basic Income: A simple and powerful idea for the twenty-first century](#), *Politics & Society*; 32:1 (2004), pp. 7-38.

Endnotes

- ¹ Alaska provides the only known example of widespread implementation of a (annual) redistribution policy in a Western region that is analogous to an unconditional basic income scheme. In 1976, Alaska set up the Alaska Permanent Fund – a state corporation that accrues a minimum of 25% of the revenues of the transit oil pipeline network. Every permanent resident of Alaska can apply for an annual dividend. In 2015, it was \$2072.
- ² For a good overview of the arguments for and against, see Colombino, Van Parijs and Atkinson.
- ³ Joze Mencinger, p. 161
- ⁴ For a good overview of the pros and cons, see Colombino, Van Parijs and Atkinson.
- ⁵ On further basic income experiments and pilot projects in Asia, South America and Africa, see the papers of [Chandra Pasma](#) (2014) and [Christopher Blattman et al.](#) (2012).
- ⁶ A review of US experiments is provided by Karl Widerquist: A failure to communicate: What (if anything) can we learn from the negative income tax experiments?, *Journal of Socio-Economics* 34:1 (2005), pp. 49-81.
- ⁷ Joze Mencinger, p. 163.

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