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UNIVERSAL BASIC INCOME AS AN INSTRUMENT FOR REDUCING INCOME INEQUALITIES*

I. INTRODUCTION

Over the last ten years, technological progress in the world economy has accelerated significantly, leading to human workers being replaced by modern machines and technological devices. The estimates of researchers from Oxford University (Carl Frey and Michael Osborne) indicate that approximately 47% of jobs in the United States are at high risk of computerisation. Similarly, an Australian study published by the Committee on the Economic Development of Australia (CEDA) shows that around 40% of jobs in Australia are exposed to a high risk of computerisation or automation in the next 10–15 years.¹

As a result, there is widespread and growing concern about the future of employment, the viability of social welfare, and the financial stability of social security systems. In addition, tax systems based on income earned from work could be subject to strong pressure, since the machines replacing human workers do not pay taxes or contribute to social security systems. Finally, technological change may lead to an increase in income inequalities in society, and a greater polarisation between the owners of capital and the labour force, especially in the case of low-skilled workers.

The Universal Declaration of Human Rights states that ‘Everyone has the right to life, liberty and security of person’, and ‘the right to a standard of living adequate for the health and well-being of himself and of his family’. The idea of ‘basic income’ was proposed in response to this statement: it would be an unconditional income available to all persons in all countries.

The aim of this article is to conduct a theoretical and empirical analysis of universal basic income, with particular emphasis on the genesis and possible effects of implementing such a mechanism. The research method employed in this article draws on studies conducted in the fields of macroeconomics and economic policy, and on the data

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¹ A. Don, *Basic income: a radical idea enters the mainstream*, Parliament of Australia, Research Paper Series 2016, November 18.

obtained using the statistical and descriptive methods published by the Organisation for Economic Co-operation and Development.

II. THE ESSENCE OF UNIVERSAL BASIC INCOME

A universal basic income (UBI), which is referred to as a 'citizen's income' or 'demogrant', would be an income unconditionally granted to all the members of society, individually, with no requirement that they work. It would therefore be a way of guaranteeing that citizens will have a minimal income. This basic income would be unconditional in three respects. Firstly, the right to this income and its level would be independent of the size and structure of households. Secondly, universal income would be paid irrespective of citizens' income from other sources. Thirdly, this income would be granted without the beneficiary having to carry out any kind of work in order to earn this income. Basic income will be a pecuniary benefit paid regularly (monthly, quarterly or annually) by the State. If basic income reaches the level sufficient to meet basic needs, this is referred to as full basic income, while if it is lower than this level, it is classed as partial basic income.²

The basic idea behind the introduction of a UBI is that all citizens, regardless of their individual income, should receive a uniform amount from the State sufficient to meet their basic needs, on a monthly basis. As a result, all other social benefits provided by the State, such as unemployment benefits or child benefits, would be withdrawn. UBI would be largely financed by the elimination of costs, which in some cases involve highly complex social benefits (including the administrative expenditure associated with them).

In addition to the direct payment of a monetary sum to the beneficiaries of UBI, this instrument may take the form of a negative income tax (NIT). Negative income tax operates in conjunction with the existing progressive income tax system. Negative income tax uses a mechanism that collects tax revenue from people with income above the minimum to provide financial assistance to people with income below this level. The amounts of basic income due to the members of a household would be deducted from the tax liability of the individual household. If the difference were positive, tax would have to be paid. If the difference were negative, the State would pay the benefit to the household.

In actual fact, the distribution of household income achieved through UBI and NIT would be the same. Despite the apparent similarity of these mechanisms, NIT may turn out to be a less costly solution. This is due to

² A. Fumagalli et al., *Bezwarunkowy dochód podstawowy*, *Praktyka Teoretyczna* 2014, no. 2(12).

the fact that in the case of UBI there are two transfer payments: the payment of basic income and the payment of income tax. In contrast, in the case of NIT there is just one payment to the household. Yet UBI also has a certain advantage over NIT, resulting from the fact that each variant of NIT needs to be supplemented by an advance benefit system before the final tax settlement at the end of the fiscal year takes place. Moreover, despite there being the same distribution of income among households, the distribution of income within households is more equal with UBI than NIT. Finally, in the case of UBI, the beneficiaries receive a fixed income regardless of whether they earn additional income (e.g. from employment) or earn no income at all, whereas NIT is dependent on the income earned by household members.³

Another form of basic income is income supplement, namely supplements intended to provide additional income so that no worker receives less than a certain level of income. In this case the government ensures that the difference between what the individual earns and the minimum wage mandated by the State is covered.⁴

The concept of basic income and the proposals for its distribution among citizens differ significantly depending on the economic doctrine underpinning them. Thus, supporters of basic income who are inclined to favour the classical (liberal) approach advocate for its introduction in the form of an NIT. According to this doctrine, state functions should be limited to the absolute minimum – a negative progressive tax should be established. Individuals below a certain poverty threshold would not pay income tax, and the State would pay the necessary funds to ensure that everyone reaches the threshold. In this case, all public services (schools, health care, etc.) would require payment, with the exception of the justice system and national defence.

In contrast, according to the doctrine of the social democrats it is essential to ensure a continuous income for those who are unemployed or whose earnings are too low. In this case, the guaranteed income should only be granted to persons without an adequate source of income. Such income redistribution would independent of any activity undertaken by the beneficiary and would last as long as the beneficiary were below the poverty threshold. Hence this concept is similar to the idea of guaranteed income.

Finally, the third doctrine, proposed by radicals, asserts that a basic income should be universal, unconditional and permanent. Such a benefit would not be discriminatory, would constitute a continuous benefit,

³ P. Van Parijs, A basic income for all, *Boston Review* 2000, October/November: 4–8.

⁴ M. Tanner, The pros and cons of a guaranteed national income, *Policy Analysis* 2015, no. 773: 2–3.

independent of actual employment, and would provide each national or regional citizen with a specified standard of living.

III. THE GENESIS OF UNIVERSAL BASIC INCOME

The idea of unconditional basic income dates back to 1796, when the English radical Thomas Spence made the first coherent and considered proposal to grant all residents equal benefits, with no preconditions. These benefits were to be allocated to all citizens, in equal amounts and paid quarterly. The funds were to come from part of the income received by the whole community from the lease of land.

In the nineteenth century, the proposal to introduce a basic income was adopted by radical and socialist movements, with Charles Fourier and Joseph Charlier being among the supporters of the idea. In the first half of the twentieth century the idea gained more popularity and recognition, largely due to the activities of Bertrand Russell, E. Mabel Milner and Dennis Milner, who argued that a universal income would help tackle poverty.

Interest in the idea of universal basic income re-emerged at the end of the 1960s and the beginning of the 1970s. In the US presidential election of 1972, the Nobel Prize winner Joseph Tobin called on the democratic candidate George McGovern to propose the introduction of a basic income, while another Nobel Prize winner, Milton Friedman, urged the Republican candidate, Richard Nixon, to implement a negative income tax.⁵

According to Tobin's proposal, basic income can be presented in arithmetic form, as $t = x + 25$, where t is the average tax rate (as a percentage of GDP) necessary to finance the planned basic income (x), expressed as a percentage of per capita GDP. The justification for this formula is as follows: payments of universal basic income must be financed in the long run, and 25% is the estimated share of expenditure in GDP needed to finance public expenditure which is not related to social care, etc.⁶

In 1986, the Basic Income European Network (BIEN) was established to promote the idea of basic income; in 2004, it changed its name to Basic Income Earth Network, transforming from a European network into a global organisation. In 1988, the first issue of the Basic Income Studies journal was published, devoted entirely to detailed analyses of the idea of basic income.

In the last few decades, many countries and regions in the world have implemented the idea of a basic income either in its full form or as a pilot.

⁵ A. Fumagalli et al., op. cit.

⁶ J. Kay, The basics of basic income, *Intereconomics* 52(2), 2017: 69–74.

For example, the State of Alaska set up a Permanent Fund in 1976 to invest the proceeds of oil sales in recognition of the fact that mineral resources belong to the inhabitants of Alaska. Since 1982, dividends from the fund have been paid annually to all residents of the state. The only criterion for receiving financial assistance was the requirement to have had resident status for at least one year and continuous residency in Alaska. The dividend has been calculated annually on the basis of the Fund's five-year average investment performance. The largest dividend of 3,269 USD was paid in 2008 and included a one-time bonus of 1,200 USD to compensate for high fuel prices. In 2012, the dividend was 878 USD per person or 3,512 USD for a four-person family. Currently, the dividend amounts to 2,000 USD per capita per year and shows an upward trend every year. The dividend payment played an important role in making Alaska one of the states with the lowest poverty levels in the USA and the smallest income inequalities. The total impact on the economy was significant, as in 2009 the purchasing power of Alaska residents increased by 900 million USD. These results were comparable with the creation of a new sector in the economy, or with the creation of 10,000 new jobs. At the same time, there is no evidence that the dividend had an impact on the labour market.

In 1968 and 1978, four basic income experiments were carried out with citizens of selected areas of the USA (New Jersey, Seattle, Denver, North Carolina, Iowa, and Gary in the State of Indiana). Although these schemes took the form of a negative income tax rather than a guaranteed basic income, the effects were similar, due to the similarity of the two schemes. The results revealed that men receiving the income reduced their working time by 7% on average, and women by 17%. This was mainly due to a reduction in the number of hours worked, rather than the total abandonment of work. Citizens' monthly spending increased moderately, in line with income growth, but the composition of this expenditure remained broadly unchanged.⁷

In 2008, the non-profit organisation ReCivitas launched a pilot basic income project in the small town of Quatinga Velho, near Sao Paulo in Brazil. The project was financed by private donations and provided 27 people with a monthly unconditional income of 13.6 USD. Over the next three years, the number of people receiving payments increased to 100. The amount of basic income paid monthly was well below the poverty line, but the villagers who received the income demonstrated that they were better able to meet basic needs. Researchers reported an improvement in the quality of nutrition among the population, with 25% of the basic income being spent on food. There was thus a noticeable improvement in

⁷ A.H. Munnell, *Lessons from the Income Maintenance Experiments: An Overview*, Federal Reserve Bank of Boston Conference Series 1986: 30.

health and living conditions. The residents also used the money to set up microenterprises.⁸

In January 2013, the annual procedure for collecting signatures for the European Citizens Initiative on Unconditional Basic Income was launched. The aim of the initiative was to oblige the European Commission to encourage Member States to cooperate in order to undertake research on basic income as a tool for improving their social security systems. However, it was not a success, as only 285,000 of the required one million signatures were collected. Only six countries (Bulgaria, Slovenia, Croatia, Belgium, Estonia and the Netherlands) managed to collect the minimum number of signatures required, and the set target was only achieved in Bulgaria. Proponents of the concept of basic income decided that the social movement associated with it should take an institutional form, and in 2014 they founded Unconditional Basic Income Europe.

In 2016, Switzerland held a national referendum on the willingness to introduce a basic income. The results of the referendum showed that almost 77% of the Swiss population opposed the plan and only 23% supported it. The proposal of basic income was addressed to adults and children. They were to receive an unconditional monthly income regardless of their social and professional status. The monthly income paid by the state was to be 2,500 CHF for adults, and 625 CHF for children. These amounts reflected the high cost of living in Switzerland. Switzerland is the first country in the world to reject the proposed introduction of an unconditional basic income.

The 'Rodzina 500+' [Family 500+] programme introduced in Poland in 2016 could also be described as a quasi-guaranteed income if it were paid per each child, regardless of the income earned by the household. Under the Rodzina 500+ programme, 500 PLN per month is paid by the State for the second and subsequent children, regardless of the family's income. Families with low incomes also receive support for their first or only child if they meet the criterion of an average monthly income of PLN800 net, or 1,200 PLN if a disabled child is being raised in the family. At the end of 2016, 3.8 million children were entitled to support, which constituted 55% of all children up to the age of 18. Thanks to the programme, the standard of living of families receiving the benefit has improved. The programme has brought about a significant improvement in the living standards of families, resulting in a reduction in the number of persons claiming social welfare benefits and receiving assistance in the form of food. Due to the

⁸ Ch. Pasma, *Basic Income Programs and Pilots*, Basic Income Canada Network, 2014, February 3.

programme, total poverty was reduced by 48% and extreme poverty by 98%.⁹

Finland has the most extensive experience with basic income, with 2 million citizens receiving unemployment benefits of 560 EUR per month in 2017, equivalent to a quarter of the average household income in Finland. In this case, basic income has not eliminated additional benefits for citizens (e.g. housing benefits) nor has it led to changes in taxes for those receiving basic income.

IV. THE EFFECTS OF THE INTRODUCTION OF A UNIVERSAL BASIC INCOME

The economic literature indicates the measurable benefits resulting from the introduction of a universal basic income. First, UBI gives citizens the freedom to spend their money as they choose. In other words, basic income boosts economic freedom at the level of the individual. This income gives residents the freedom to choose a particular type of work instead of forcing them to do unproductive work in order to meet their daily needs. Second, a basic income is a kind of insurance against unemployment and can thus contribute to the reduction of poverty. Third, basic income leads to a fair distribution of wealth. Fourth, the increase in income increases the citizens' bargaining power because they are no longer forced to accept the working conditions they are offered. Fifth, a basic income is easy to implement. Due to its universal nature, there is no need to identify beneficiaries; it therefore avoids the possibility of errors in the identification of eligible beneficiaries, which is a frequent problem in targeted social programmes. Sixth, as each individual receives basic income, there is improved efficiency due to reductions in losses accrued in government transfers. Seventh, the direct transfer of UBI to citizens may help reduce corruption in the country. Eighth, the reduction in costs and time due to basic income replacing many social welfare programmes may result in benefits. Ninth, and finally, transfers of basic revenue directly to the beneficiaries' bank accounts may increase demand for financial services, which is conducive to the development of the financial market in the country.¹⁰

On the other hand, opponents of the idea of UBI argue that there are several disadvantages of this system. Above all, there is a moral risk. A consequence of basic income is that the motivation to work is reduced, leading to a reduction in the labour supply in the country.

⁹ See <<https://www.mpips.gov.pl>> [accessed 4 October 2017].

¹⁰ *Universal Basic Income (UBI): Everything you need to know*, <<http://www.clearias.com>>.

Another issue is fiscal costs and the risk of the sums received by citizens losing their purchasing power: the opponents of UBI claim that after its introduction taxes in the country will increase in order to finance the growth in government spending. Furthermore, an increase in the money supply in a country may result in an increase in inflation and a decrease in purchasing power.

It is thus evident that the potential impact of basic income on the whole market cannot be unambiguously determined, as this income has different effects on the various areas of economic life: a positive impact in some cases and negative in others.¹¹ The impact of UBI on employers can be positive, in terms of jobs that stimulate employee competitiveness. Without having to work to ensure a certain standard of living, individuals can develop and seek employment that gives them satisfaction and a sense of fulfilment. Growing competition will attract people who are better prepared for the labour market, who will be more willing to learn and develop, and thus there will be a considerable improvement in human resources. In addition, permanent social welfare and an increased labour supply in the market will allow employers to reduce wages. However, there is a great risk that employers will offer jobs to the less qualified. In this case, in order to fill vacancies, the employer will have to pay higher wages. An increase in the wage bill will lead to higher prices, while an increase in prices will necessitate an increase in the universal basic income.

The effect of introducing UBI is also positive for employees. Due to their receiving an unconditional income, they are able to pursue their own continuous development and engage in programmes that will help them to get the desired positions; and they are able to invest part of their basic income in education without this affecting the family budget.

Progressive income tax, which is currently the prevailing model across the world, seems to be the best available source of financing for social policy that seeks to guarantee an adequate standard of living for citizens by introducing a universal basic income. The introduction of a basic income must be accompanied by limiting or even complete eliminating other forms of social welfare, such as unemployment benefits, pensions, and social allowances, whilst only leaving funds for people with disabilities. In addition, a universal basic income may contribute to a reduction in expenditure from the state budget as a result of lower employment in the public sector. On the other hand, the elimination of

¹¹ J. Sattelberger, *Unconditional basic income: an instrument for reducing inequality?*, 'KfW Development Research', Development in Brief 2016: 39.

unemployment insurance contributions and social security contributions may lead to a reduction in fiscal pressure in the economy.¹²

V. UNIVERSAL BASIC INCOME IN THE LIGHT OF THE RESULTS FROM EMPIRICAL ANALYSES

In a published report, The Organisation for Economic Cooperation and Development (OECD) concluded that a basic income can actually increase poverty in the majority of high-income countries. This conclusion is based on an analysis of a scenario in which all existing monetary and tax benefits for persons under 65 years of age are replaced by a basic income in the 35 OECD countries. The analysis shows that governments in most members of the OECD implement social support programmes for the benefit of the poor, while a basic income will do so less precisely. The OECD conducted a detailed analysis of the impact of basic income on four member countries: Finland, France, Italy and the United Kingdom. In three of the four countries analysed, it was found that the hypothetical basic income would in fact increase poverty by at least 1%.¹³

Robin Jessen, Davud Rostam-Afschar and Viktor Steiner conducted an empirical study on the potential effects of introducing UBI in Germany, of 800 EUR per month for adults and 380 EUR per month for people under 18 years of age. These amounts are close to the current standard of living guaranteed by unemployment benefits and social welfare in Germany. The study assumed that this mechanism would be financed by a flat tax of 68.9%. The authors concluded that the reform would increase the labour supply in Germany in the first decile of income distribution. This effect would be significant and would indicate an increase in the labour supply of this group by 6.1%. On the other hand, the introduction of UBI in Germany would reduce labour supply in most other income decisions. In general, the introduction of UBI would reduce the total labour supply by 5.2%. Using the utilitarian social welfare function, the authors confirmed that the total social benefits that could be gained would be higher than in the current situation. The results of the analysis confirmed, therefore, that the introduction of UBI in Germany would be economically justifiable, would increase the motivation to work in poorer households, and would bring greater social benefits than the current system.

¹² O.A. Cercelaru, Unconditional basic income – impact on the economy, *Annals of Constantin Brâncuși* 3, 2016: 120–121.

¹³ *Basic Income as a Policy Option: Can it Add Up?*, Organization for Economic Cooperation and Development, 2017, May.

The United Nations International Children's Emergency Fund (UNICEF) conducted a pilot project a few years ago, in collaboration with the Self Employed Women's Association (SEWA) in India, to analyse the effectiveness of UBI for thousands of inhabitants of a village in the state of Madhya Pradesh. The survey results showed that there was an increase in local economic activity, which was evident in the creation of micro-enterprises, the creation of new jobs, and increasing purchases of technical equipment and livestock for the local community. In addition, it was observed that UBI led to significant improvements in child nutrition, school enrolment, health care and accommodation. It should also be noted that women benefited more from the income than did men (which is indicative of women having increased financial autonomy). The disabled and poor were also seen to benefit.¹⁴

Relatively few economists have come to the conclusion that all the citizens in a society can benefit from the introduction of a basic income¹⁵. According to Etienne Lehmann, the final outcome depends on the level of education in the country: he argues that better qualified people do not benefit as much from basic income as less qualified people do.¹⁶

Referring to experiments carried out in the 1970s in Manitoba (Canada), Derek Hum and Wayne Simpson had to admit that the reduction in work effort after the introduction of an unconditional basic income was relatively small (about 1% for men, 3% for married women and 5% for unmarried women). In addition, the researchers noted that the introduction of UBI had a significant impact on the structure of households.¹⁷

On the basis of empirical studies on the idea of UBI, two main conclusions can be drawn. Firstly, basic income results in generally positive effects only if it is not too high, or if it is slightly below the relative poverty threshold. Secondly, basic income should replace unemployment benefits.

VI. CONCLUSION

Those who support the introduction of UBI argue that it would help reduce the possibility of welfare systems being abused. The unconditional

¹⁴ S. Davala et al., *Basic Income: A Transformative Policy for India*, Bloomsbury Academic, London–New York 2015.

¹⁵ A. Chéron, Allocation universelle vs. indemnité chômage. Evaluation quantitative dans un modèle d'appariement, *Revue Économique* 53(5), 2002.

¹⁶ E. Lehmann, Évaluation de la mise en place d'un système d'allocation universelle en présence de qualifications hétérogènes: le rôle institutionnel du salaire minimum, *Économie et Prévision* 157(1), 2003.

¹⁷ D. Hum, W. Simpson, A guaranteed annual income: from Mincome to the millennium, *Policy Options* 2001, January/February.

transfer of basic income is a very simple and transparent transfer system, which drastically reduces the scope for abuse in comparison to other systems commonly used today. In addition, it is argued that the introduction of a basic income would reduce the stigmatisation of applicants. Supporters also believe that it would create a more egalitarian society and open up opportunities for individual self-fulfilment. Moreover, supporters of basic income claim that technological development in the world of work entails that technological solutions will keep replacing manual labour. This means there will be a minority of people earning high incomes alongside an ever-increasing number of unemployed. UBI would thus provide the necessary social balance.

On the other hand, opponents of UBI claim that the belief in the equal distribution of basic income is just wishful thinking and that it could never become a reality. Moreover, it is argued that a basic income would be accompanied by the risk of abuse (a moral risk), since the basic income would significantly reduce the willingness to work and thus lead to a decrease in employment. This would have a negative effect on the driving forces of the market economy. In addition, the introduction of a basic income would result in the loss of other welfare benefits and social needs having to be met through self-financing.

The introduction of UBI would indeed be a radical change in the social welfare system, but one that would be fair and liberal, as all citizens would be treated equally. Higher income earners pay more taxes than lower income earners in absolute and relative terms. A subsistence income is guaranteed to everyone and people without income receive net transfers. Although a guaranteed income would not be not perfect or cheap to implement, it seems reasonable to at least consider implementing such a radical change in the current system of social welfare. Sometimes it transpires that the risk of radical change is less than the risk of continuing with the existing system, since the current social welfare system may exacerbate social and political pressure due to the growing polarisation of society.

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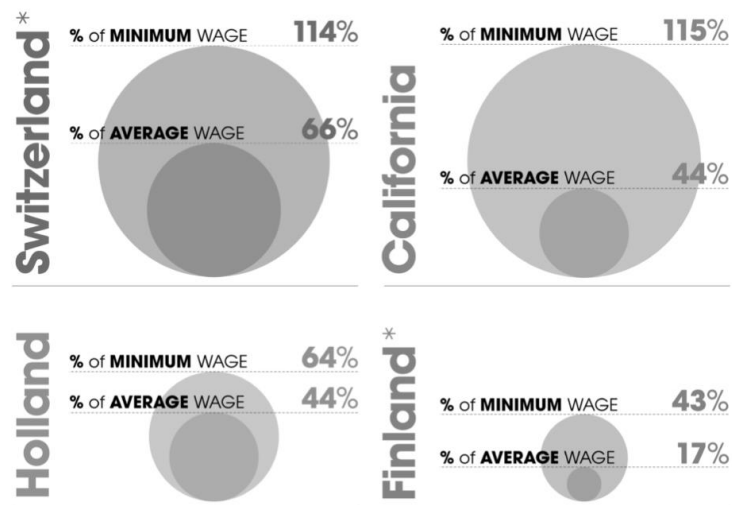
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S u m m a r y

A universal basic income (UBI) is the income allotted to all members of society individually, without them having to provide work instead. The right to this income and its level are unconditional and independent of the size and structure of households. In addition, unconditional income is paid regardless of the citizens' income from other sources. The aim of this paper was to conduct a theoretical and empirical analysis of UBI, with particular emphasis on the genesis and effects of the implementation of such a mechanism. The research methods used in the paper are based on literature presenting studies in macroeconomics and economic policy, as well as on the data obtained using statistical and descriptive methods published by the Organisation for Economic Co-operation and Development.

Annex

The proposed level of basic income in selected countries and regions



Source: <<https://apolitical.co>>.