

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



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Recent debates of basic income (BI) proposals shine a useful spotlight on the challenges that 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 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, requiring 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**).

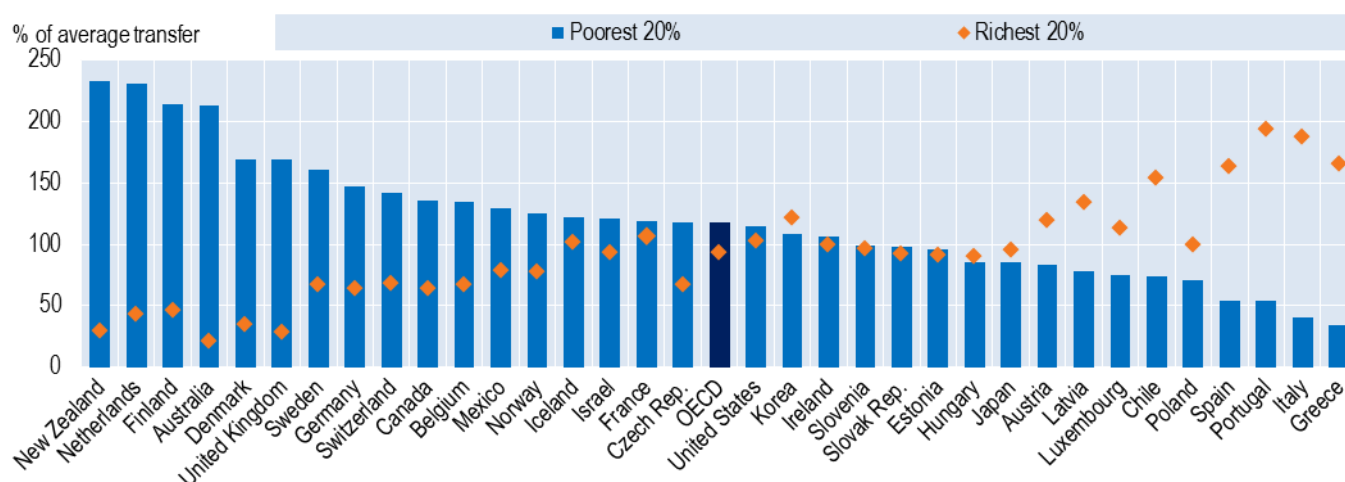
A growing interest in simple, reliable and accessible income support can be linked to major economic trends and to social concerns associated with them, including growing [inequality](#),

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 ([Society at a Glance: OECD Social Indicators 2016](#)). 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



Note: Age group 18-65, 18-62 in France. Public social cash transfers at the household level, adjusted for household size. Income groups refer to disposable incomes. Additional data provided by France show that, without counting old-age and disability pensions, the bottom 20% in France receive about three times as much as the top 20%.

Source: Calculations based on the [OECD Income Distribution Database](#).

Box 1. Basic income debates in OECD countries

Although the idea of a BI has been discussed by philosophers for centuries, there are few cases of BIs actually being introduced in the OECD area. Perhaps the closest example is the Alaska Permanent Fund, which distributes part of that state's oil revenues to all its residents on a per-capita basis. Previous experiments that are frequently cited as being BIs such as the US negative income tax experiments of the late 1960s and early 1970s and the Canadian MINCOME programme are in fact closer to means-tested benefits than a flat-rate payment to the whole population. Nevertheless, the idea has recently attracted greater interest in a number of OECD countries. In Switzerland, a proposal to change the constitution to give everyone the right to a basic income at a level that would enable recipients "to live a dignified life and to participate in public life" was rejected in a 2016 referendum by a margin of 77% to 23%. Although the referendum question itself did not specify a level for the BI, those campaigning in favour of it proposed a level of CHF 30 000 per year. This is equivalent to more than half of median income for a single person in Switzerland, a much higher level than has been proposed elsewhere.

Some countries have started or are planning pilots to evaluate the impact of specific BI programmes. The most developed of these experiments is in Finland, where 2 000 current recipients of unemployment assistance benefits have been paid a BI of EUR 560 per month since January 2017, equivalent to just over a quarter of median household income for a single person. The amount, and the fact that some other benefits, including housing benefits, are kept in place, is similar to the scenario for Finland analysed in this note. However, in contrast to the scenarios assessed here, taxes for those receiving the BI are unchanged in the Finnish experiment, and those receiving higher levels of unemployment benefits are not losing out. The scheme would not therefore be budget-neutral if it were applied nationally. The Finnish pilot study will be particularly informative for understanding the impact a BI may have on recipients' employment behaviour and other time use.

Different types of experiment have been announced in the Netherlands. The ministry of Social Affairs and Employment will give up to 25 municipalities the possibility to make experimental changes to social assistance (*Participatiewet*) from 2017 onwards, in order to examine the effectiveness of different policy options to stimulate participation in the labour market. The experiments do not correspond to a universal BI as discussed in the note, however. A limited number of existing claimants will receive different types of "treatment" (intensive support for integration into work, no job search requirements or a broader exemption of labour income from applicable means tests). The central goal is to examine the effectiveness of different policy options to stimulate participation in the labour market and overcoming benefit dependence.

In Canada, the Ontario Government has committed to testing a basic income as an approach to more effectively lifting people out of poverty and improving health, housing and employment outcomes in the province. Ontario is currently holding consultations to seek public input to help inform the design of the pilot and will move forward with implementing it in 2017. The Government of Québec tasked an expert panel to look into new approaches that could be used to fight poverty more effectively, promote social inclusion and move towards introducing a guaranteed minimum income.

BI proposals are also in the public debate or under policy consideration in many other countries. In France, a Senate Committee recently recommended an experiment and several presidential candidates proposed different variants of a BI. The most high profile of these plans would have replaced existing social assistance and in-work benefits with a basic income set at a level slightly higher than the social assistance amount for a single person. But those receiving the BI would also have had to pay a means-tested "contribution" towards it, which would be equal to the basic income itself for those with higher incomes, who would thus have seen no change in their income. This is very different from the universal BI considered in this note. Some other proposals in France are closer to the scenario examined in this note, with BI amounts close to the level of existing social assistance benefits, and partially financed by abolishing tax-free allowances.

In the United States, the billionaire entrepreneur Elon Musk is proposing to conduct his own BI experiment for a small number of people, and several other innovative local and citizen initiatives have been reported in the media. In many of these cases, there are, however, currently relatively few concrete details as to the parameters of the proposed programmes.

As well as discussions in the political sphere, a large number of recent academic studies have examined the possible impacts of a BI in comparative perspective or various country contexts, suggesting that the idea is likely to remain under active discussion for some time. Examples are Atkinson (2015), Widerquist et al. (2013), as well as studies for the United Kingdom (Reed and Lansley, 2016), Germany (Spermann, 2006; Sommer, 2016) and Hungary (Bistván et al. 2014).¹

1. Atkinson A.B. (2015), *Inequality: What Can Be Done?*, Harvard University Press; Widerquist, K., J.A. Noguera, Y. Vanderborgh and J. de Wispelaere (eds.) (2013), *Basic Income. An Anthology of Contemporary Research*, Wiley Blackwell; H. Reed and S. Lansley (2016), *Universal Basic Income: An idea whose time has come?*, A. Spermann (2006), *Basic Income Reform in Germany: Better Gradualism than Cold Turkey*, M. Sommer (2016), *A Feasible Basic Income Scheme for Germany*, B. István et al. (2014), *A Léttájanlat a magyar társadalomnak*.

Significant benefit entitlements among higher-income groups are a result of making social-insurance benefits and pensions available to a sizeable share of working-age individuals (e.g., in France, see notes to **Figure 1**, and in Southern European countries).

Rapidly evolving labour markets are blurring lines between traditional employment and different forms of independent work. New types of atypical employment also make it harder to reliably assess whether someone is working at all. As a result, it becomes more difficult to tie social-protection entitlements and contributions to people's employment status. If existing targeting strategies do not provide adequate coverage for all those in need, moving towards greater universality is one option for keeping social protection accessible. A BI provides an interesting counterfactual in this debate.

Both supporters and opponents of a BI agree that replacing large parts of existing social protection with a universal payment would be a major change. Before discussing pros and cons of reforms in this direction, this note examines how large a departure a BI would be from traditional approaches of providing cash income support.

The starting point for this thought experiment is a hypothetical universal BI that would be paid to all individuals at or below working age (e.g., younger than 65, depending on the country). Such a BI would not directly affect the incomes of people above normal retirement age, or the provision of public services, such as health, education, care, or other in-kind supports. But the BI would likely change the living standards for large parts of the population. It would be financed by abolishing most existing types of cash benefits and tax-free allowances (including social insurance and family benefits but retaining some benefits intended to compensate costs related to special needs, such as disability and cash housing support), and by making the BI itself taxable. The scenarios were chosen to illustrate key mechanics and trade-offs of BI reforms in a comparative context.¹

1. In practice, extending benefit coverage may have implications for access to services, notably in countries where benefit recipients are covered by health insurance, but those without employment or benefit entitlements are not.

What would be a realistic basic income amount?

One budgetary neutral way of implementing a BI for the working-age population and children would be to take existing spending on benefits for this age group, and to spread it out equally, as a flat-rate amount. The resulting BI amount would be received by everybody, including high-income groups, and would be very much lower than the poverty line of a single individual. In other words, without any additional taxes, a budget-neutral BI will be very far from eradicating poverty, and a BI set at the poverty line would be very expensive (Figure 2).

A less ambitious alternative may be to use the levels of guaranteed minimum-income benefits (GMI) in existing social protection system as a target value for a BI. Figure 2 shows that the income provided by GMI is typically well below the poverty line. But in most countries, a BI financed exclusively by replacing existing cash transfers would fall well short even of these lower GMI amounts.

As a result, a single person without any other resources may be significantly worse off with an expenditure-neutral BI, than under existing benefit provisions. Those currently entitled to additional support to compensate for specific needs or circumstances – such as the costs related to a disability or of renting suitable accommodation – would lose out even more from a flat-rate BI. For a BI reform to be realistic, some targeted cash transfers, for instance disability or housing benefits, may therefore need to be kept alongside the BI.

But this would require even greater reductions of BI amounts if expenditures are to be kept at current levels. A BI at socially and politically meaningful levels would therefore likely require additional benefit expenditures, and thus higher tax revenues to finance them. By taxing the BI alongside other incomes, its

net value would fall, reducing its cost and making it more targeted to lower-income groups, who pay lower tax rates.

A further option for financing a BI is to abolish any existing tax-free allowances. This option is commonly included in BI proposals, as the rationale for allowing individuals to keep a portion of their income tax-free becomes less convincing when everyone receives a minimum level of income. Moreover, unlike means-tested benefits, a BI does not get withdrawn when people start earning more. Work incentives would be stronger as a result, and tax-free allowances could be abolished, while still lowering marginal effective tax rates for many low-income earners (typically the group most likely to work more in response to stronger incentives).

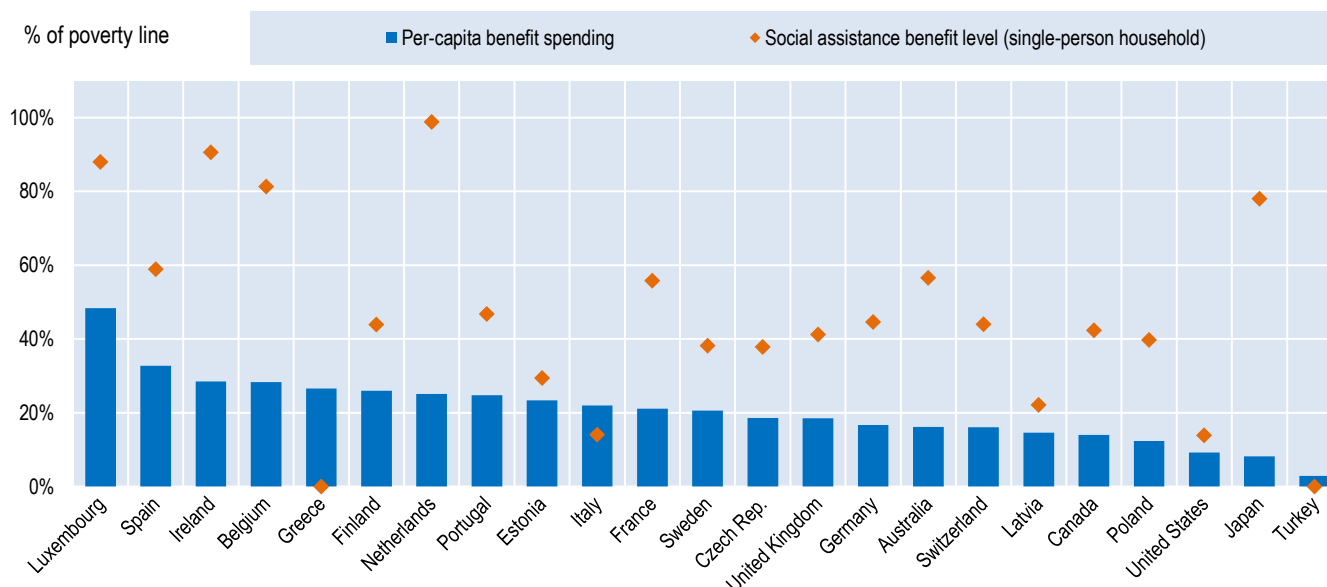
Financing the costs

More detailed simulations of a hypothetical universal BI reform show that, in some countries, a BI that is paid at current GMI levels could result in budget savings. (Box 2 summarises the reform parameters that were chosen for the policy simulations.)

This is the case in Finland and Italy, if the BI replaces most existing working-age benefits, if it is taxed alongside other incomes, and if zero-rate tax bands or tax-free allowances are abolished, and all income-tax thresholds are shifted downwards by a corresponding amount. Any resulting surplus revenue could then be used to finance a more generous BI amount, or to reduce income taxes (e.g., by lowering tax rates). In France, additional revenues from abolishing tax-free allowances would also almost offset the additional cost of a BI set at GMI levels: a budget-neutral reform would then require only a small reduction in the BI level below GMI levels, or a small further tax rise.

Figure 2. At current spending levels, a basic income would be well below the poverty line

Non-elderly benefit spending per capita and guaranteed minimum income (GMI) level as a percentage of the poverty line, 2013



Note: Poverty thresholds are 50% of median disposable household income. Per-capita spending is in gross terms and refers to total cash transfer except old-age and survivor pensions, but including early-retirement benefits where these can be identified, divided by the number of residents aged below 65 (62 in France). Where receipt of old-age pensions among working-age individuals is relatively common (e.g. in France), true per-capita amounts of all “non-elderly” benefits is significantly higher. Some countries (e.g. Luxembourg) pay significant amounts of benefits to non-residents; dividing total expenditure by the resident populations only overestimates true per-capita amounts in these cases. Social assistance amounts refer to the main means-tested safety-net benefit available for working-age people and do not include cash housing benefits that may be available separately. No nationally applicable general GMI entitlements existed in Greece and Turkey. Social Assistance in Italy refers to the *Sostegno per l’inclusione attiva* GMI programme that started being rolled out nationally in 2016; no nationally applicable GMI programme existed prior to that.

Source: OECD [Social Expenditure](#), [Income Distribution](#), and [Tax-Benefit Policy](#) database.

Box 2. Basic Income: From general concept to concrete policy scenarios

Analysing hypothetical policy scenarios requires choosing a wide range of reform parameters. The main ones adopted for the purpose of this note are as follows and are used for policy simulations in four countries, Finland, France, Italy and the United Kingdom:

1. Individuals receive the BI if they reside in the country and are below the current main statutory retirement age: younger than 65 in Finland and Italy, younger than 65 (men) or 62 (women) in the United Kingdom, and younger than 62 in France.
2. The BI is modelled as an individual entitlement. All adults receive the same benefit amount before tax. The BI is also the same for all children, but different from the adults amount. The after-tax BI for adults is initially scaled to match GMI levels for single individuals. Amounts for children are then set so that a family with two children and no earnings receives the same income as before the reform. In households that include both working-age and older adults, the incomes of older individuals are protected (i.e., their benefits and taxes are unchanged by the reform).
3. Cash support for rented accommodation is retained (but amounts may change once recipients start receiving a BI, as a result of any built-in means tests). Disability benefits exceeding BI levels are reduced by the amount of the BI. All other cash benefits (unemployment, GMI, family, early retirement, and in-work benefits) are abolished. The BI reform does not directly affect any services or other in-kind support provided by existing social protection systems. All existing social contributions are kept in place, but no contributions are levied on the BI (and BI receipt does not create entitlement to later old-age pension or other insurance benefits).
4. All BI amounts are made fully taxable under personal income tax alongside other taxable income, so the net BI is smaller for higher-income tax payers. In addition, zero-rate tax bands of income-tax schedules (as well as equivalent tax-free allowances) are abolished, all income-tax brackets are shifted downwards by the amount of the zero-rate band (rather than, e.g., expanding the width of the bottom bracket only and keeping other tax-band limits unchanged).

All headline results refer to budget-neutral scenarios. Budget neutrality is achieved by adjusting BI amounts either above or below GMI levels, depending on whether or not the cost of a BI at GMI level exceeds the budget gains from abolishing non-BI benefits (3) and from higher tax revenues (4). No account is taken for any reductions in administrative costs following a replacement of existing benefits with a much simpler BI.

All results are derived for unchanged employment, working hours and earnings, i.e., the simulations do not consider any short-term or longer-term behavioural responses to the BI reform.

Unless otherwise noted, budgetary and distributional consequences of BI scenarios are evaluated relative to the tax-benefit policy rules that were in place in 2015. The simulations are carried out using [EUROMOD](#), the tax-benefit model for the European Union. For full details and results, see the technical background note cited under “Further reading” at the end of this note. Results presented in this note make use of EUROMOD version G3.0+.*

* EUROMOD is maintained, developed and managed by the Institute for Social and Economic Research (ISER) at the University of Essex, in collaboration with national teams from the EU member states. We are indebted to the many people who have contributed to the development of EUROMOD. The process of extending and updating EUROMOD is financially supported by the European Union Programme for Employment and Social Innovation “Easi” (2014-2020). Data sources for EUROMOD results reported in this note are as follows. Finland: microdata from the EU Statistics on Incomes and Living Conditions (EU-SILC) made available by Eurostat (59/2013-EU-SILCLFS); France and Italy: national EU-SILC PDB data made available by respective national statistical offices; United Kingdom: Family Resources Survey data made available by the Department of Work and Pensions via the UK Data Archive. None of the individuals or organisations mentioned in this acknowledgement are responsible for the analysis or interpretation of the data reported here.

By contrast, in the United Kingdom, the cost of a BI at GMI levels would significantly exceed current spending on cash benefits and tax-free allowances. A budget-neutral BI reform in the United Kingdom would require a more sizeable reduction of the BI amount below GMI levels, or additional tax increases.

The remainder of this note focuses on a scenario where the BI is financed as described and the BI amount is then scaled up or down to achieve full budget neutrality. The resulting budget-neutral BI amounts, net of tax, are shown in **Table 1**.²

In all cases, large tax-revenue changes are needed to finance a BI at meaningful levels, and tax reforms would therefore need to be an integral part of budget-neutral BI proposals. Even when headline tax rates remain unchanged, abolishing tax-free allowances and making BI taxable means that everybody would pay income taxes on the BI, and on all their

other income. Tax burdens would go up for most people as a result, further increasing tax-to-GDP ratios that are currently already at a record-high in the OECD area. In Finland and the United Kingdom, the additional tax revenue would contribute a significantly larger share of gross BI expenditures (60% and 68%, respectively) than the savings from abolishing or reducing existing benefits and in France, higher tax revenues would contribute around half (51%) of gross BI expenditure. In Italy, higher tax payments would represent a lower share of BI spending (28%) but the implied increase in tax revenues would still be large.

Table 1. Monthly BI amounts that would cost the same as existing benefits and tax-free allowances

	Adult	Child (<18)	Poverty line for single person
Finland	EUR 527	EUR 316	EUR 1074
France	EUR 456	EUR 100	EUR 909
Italy	EUR 158	EUR 158	EUR 737
United Kingdom	GBP 230	GBP 189	GBP 702

Note: Hypothetical reform where a basic income would replace most existing working-age benefits, as well as the tax-free allowance. See Box 2 for details. BI amounts are shown after tax and are 9% higher than existing single-person GMI in Finland and as much as 97% higher in Italy. In France, the budget-neutral BI amount would be 2% below current GMI levels and in the United Kingdom, the budgetary neutral BI amount would be 28% below current GMI levels. Poverty line is 50% of median household income adjusted for household size using square root of household size.

Source: Secretariat calculations using EUROMOD.

2. If BI were, instead, kept at GMI levels, budget neutrality could be achieved by raising (all) personal income-tax rates by 2% in France and 25% in the UK, while tax rates could be reduced by 5% in Finland and by 31% in Italy. In Italy, revenues from income tax and social contributions would be 13% lower as a result. But in Finland (+57%), abolishing tax-free allowances and making BI taxable means that revenues would be much higher than before the reform even with these tax-rate reductions. In France, the combination of a small increase in tax rates and the abolition of tax-free allowances increases income tax revenues by 44% and in the UK, the increased tax rates in such a scenario would nearly double revenues from income tax and social contributions (+95%).

Gainers and losers of a comprehensive basic income

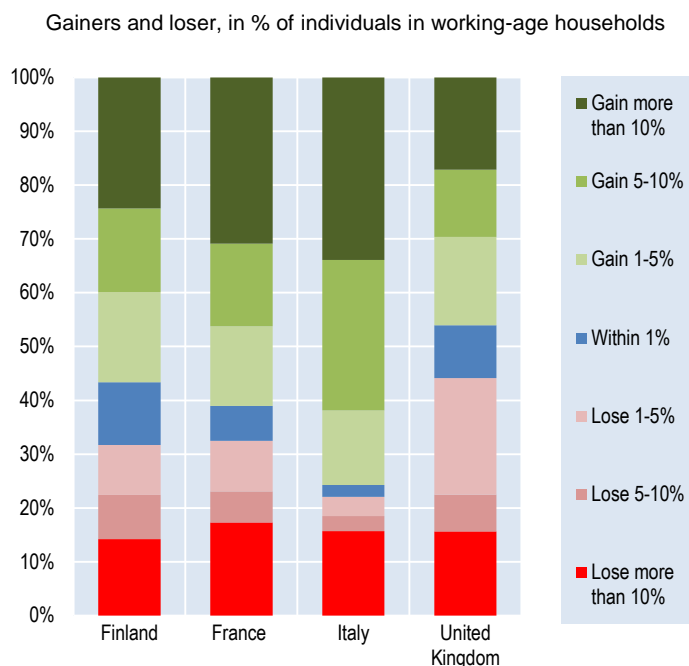
A universal BI is very simple. But since existing social benefits are not, replacing them with a universal flat-rate benefit produces complex patterns of gains and losses. A budget-neutral BI reform would therefore not be distributionally neutral. **Box 3** summarises the factors driving income in different types of households.

Overall, a large majority would see either significant gains or large losses (**Figure 3**). This is most pronounced in France and Italy, countries where the benefits that a BI would replace are largely based on social insurance. Those receiving social insurance benefits (e.g. early retirees, and many unemployed) would normally lose out from their replacement with a BI at GMI levels. Because early retirement pensions are only received by those approaching retirement age, losses are especially frequent in the 55-64 age bracket (**Figure 4**).

Benefit recipients losing out from a BI reform in France and Italy may belong to different income groups, which is one reason why the proportion of households losing from this type of BI reform can be roughly the same at very different income levels (**Figure 5**). Those not qualifying for any social benefit under existing policies (or not taking it up) gain if the BI exceeds the increase in their tax burden, and lose otherwise. Because of very low benefit coverage in Italy, a large majority of individuals in all income groups would benefit from a BI. In France, many of the losses of higher-income households are driven by the tax changes accompanying the hypothetical BI reform (notably the removal of the zero-tax band).

In France, and to a lesser extent in Finland and the United Kingdom, income gains are most common in middle-income households – they do not qualify for means-tested benefits under existing systems, but do receive the BI after a reform. They also lose less from the abolition of tax free allowances than higher-income households.

Figure 3. Few people would see their incomes unaffected by a basic income



Note: Working-age households are those with at least one working-age individual. Hypothetical budget-neutral reform where a basic income would replace most existing working-age benefits, as well as the main tax-free allowance. See main text and Box 2 for details.

Source: Secretariat calculations using EUROMOD.

Lower-income households are more likely to receive means-tested income support and therefore less likely to gain as the BI is set at similar levels to GMI. A result specific to the United Kingdom is the higher share of gainers in the lowest-income group than in the groups with slightly higher incomes. One reason is the significant non-take up of means-tested benefits: as a result, a substantial number of poor families not currently covered by means-tested benefits would gain from a universal BI.

Box 3. Gainers and losers by family type

For single-person households, setting the BI amount at GMI levels would leave incomes for those with very low incomes, and entitled to GMI under current policies, largely unchanged.¹ Calculations with the [OECD tax-benefit models](#) show that in some countries, including Finland and the United Kingdom, single people with higher incomes would also be broadly unaffected.² In France, tax allowances are worth more than the BI amount for those earning above the average wage. Higher-income earners would therefore often lose incomes overall.

The impact of a BI reform would be far bigger for other family types, however. The individualised nature of the BI cannot adequately replicate the levels of support that existing social protection systems provide to different family types. For example, GMI amounts for couples in most existing GMI systems are less than twice the single-person amount in reflection of the economies of scale resulting from couples living together. Many couples without children would consequently gain from a BI set at single-person GMI. Higher-income families with children would gain if existing support for families with children is, in part, targeted to lower-income families.

By contrast, lone parents at lower income levels may lose out, as a fully individualised BI would fail to provide extra support to parents living without a partner, which is often available in existing social protection systems.

1. Any difference would come from making the BI taxable, and from adjusting its level to make the reform budget neutral.
2. Essentially, this is because the value of GMI benefits is approximately the same as the combined value of tax-free allowances and in-work benefits for a single person. A full set of calculations is reported in the background paper referenced in Box 2.

Would a basic income reduce poverty?

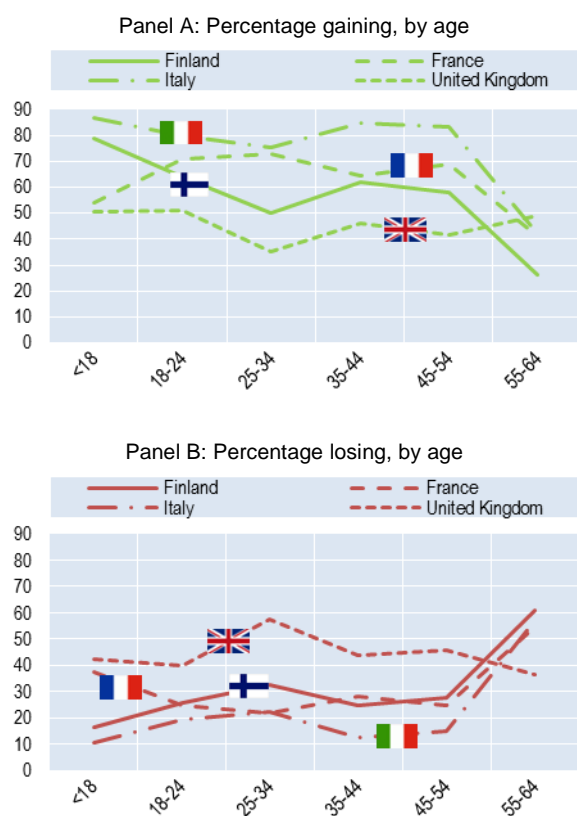
Many poor would see income gains if they are not covered by existing social protection or they only receive small amounts of means-tested benefits. But some others, notably those currently in receipt of more generous support, would fall below the poverty line. As shown in Figure 1, benefit recipients do not necessarily live in the lowest-income households. But if they rely exclusively on benefits (e.g., some unemployed and early retirees), they would see very significant income reductions – and would fall into poverty when BI amounts are set below poverty thresholds (as is the case here).

The net effect of gains and losses would be large shifts in the composition of the income-poor, with some people moving above the poverty line (taken here as 50% of median household income), while others would fall below it (Table 2). Overall poverty rates (and gaps) can in fact increase significantly in countries that currently have tightly targeted

systems of income support (Figure 6). The relatively good benefit coverage of income-poor households in France and Finland means that income gains from a BI are also not sufficiently widespread among low-income households to reduce poverty headcounts overall. In Italy, poverty headcounts change little overall, as reductions in poverty among those not covered by existing benefits are offset by the greater poverty risks resulting from the large losses of current benefit recipients.

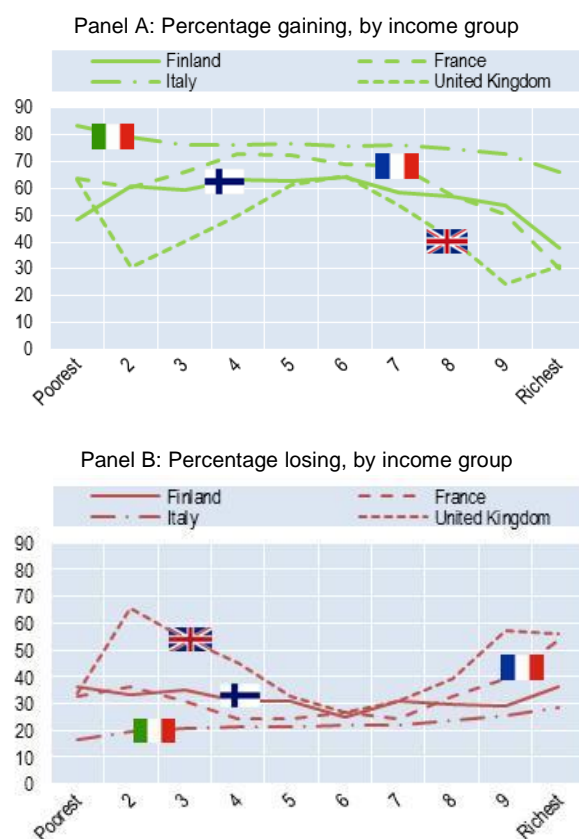
Unlike in the other countries, the budget-neutral BI amount in the United Kingdom is below GMI levels, and poverty rates would increase significantly as a result. Different reform parameters, e.g., combining higher BI levels with (further) tax increases could avoid some of the losses. But one message emerging from the results is that a BI is not necessarily an effective poverty-alleviation tool, even if it would provide improved support to those who are not currently covered by social benefit provisions.

Figure 4. Early retirees would lose out when existing benefits are replaced with a modest BI



Note and Source: See Figure 3. Gains and losses each refer to income changes of 1% or more.

Figure 5. Low-income households currently receiving a benefit would often be worse off under a BI



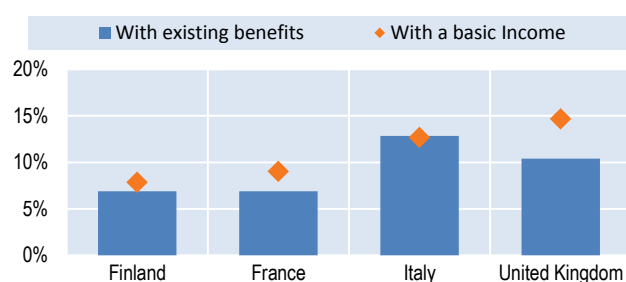
Note and Source: as in Figure 4.

Table 2. A comprehensive basic income would change the distribution of poverty risks ...

In poverty under existing system?		In poverty under basic income?			
		No		Yes	
		No	Yes	No	Yes
In poverty under existing system?	No	UK: 83% France: 89%	Finland: 90% Italy: 83%	UK: 7% France: 5%	Finland: 3% Italy: 4%
	Yes	UK: 2% France: 2%	Finland: 2% Italy: 4%	UK: 8% France: 4%	Finland: 5% Italy: 9%

Note and Source: See Figure 3. Poverty line is 50% of median household income adjusted for household size using square root of household size. Cells shaded in green (red) show shares of people moving out of (into) poverty following the BI reform.

Figure 6. ... but it would often not lower poverty overall
Poverty rates under existing systems, and a BI



Note and Source: See Figure 3 and Table 2. Poverty rates are relative to the number of people living in working-age households.

Simple, but not without problems

BI proponents point to its administrative simplicity, and to its role in providing a degree of income security in fast-changing labour markets. A modest “permanent” income would also provide individuals with greater flexibility for managing work, family and other responsibilities or interests. As such, it could facilitate activities that have attractive payoffs for society but can be costly, time-consuming, or risky for individuals, such as caring, volunteering, social entrepreneurship, education, training or internships, or starting a business.

An unconditional benefit also avoids the social and economic costs of complex means tests or other elaborate conditions for benefit receipt. Such conditions are necessary in social protection systems that seek to channel support to those in specific situations of need (so-called “contingencies”), such as ill-health, unemployment, childbirth or family dissolution. But they can create incentives for arranging one’s affairs in ways that maximise benefit entitlements (e.g., by working less or informally, or by living separately rather than together), causing individual or social costs in the process. Strict monitoring and enforcement of entitlement conditions help to eliminate illicit receipt of support, but they are also associated with administrative costs and stigma, which reduces benefit take-up among intended recipients.

There are also major concerns about unintended consequences of a BI. An especially prominent one is that unconditional income support would reduce the necessity for paid work and work incentives. For some jobs and workers, a modest BI may indeed reduce the willingness to work at prevailing wage levels (and, hence, strengthen workers’ bargaining position to demand better working conditions). But a revenue-neutral BI would not change incomes on average. While those gaining from it may work a little less, those losing out may work more and the net effect would be small.

Moreover, adverse incentive effects of social benefits are also a prominent concern in the context of existing social protection systems. Indeed, benefits that are withdrawn when people start a new job or increase their earnings do more to weaken work incentives than a BI. Simulations reported in the companion technical background note show that the additional tax burdens needed to finance a BI can reduce work incentives for households that already have significant work income, notably for second earners. However, incentives to work at all would be significantly stronger with a BI, especially for lower-income households, who tend to react most strongly to work incentives.

Nonetheless, an entirely unconditional BI would sever links between carefully balanced rights and responsibilities of job seekers. A key element of existing policies to promote the prompt (re)integration of job seekers into employment (activation strategies), for instance, is that benefits and employment support are tied to active participation in job-search and labour-market integration measures.³ Targeting these incentives and services to job seekers would become more difficult if everyone is a benefit recipient and benefit conditionality is no longer there.

Relaxing links between benefit entitlements and the behaviour of recipients would in fact represent a notable departure from key principles of “active” social and employment policy in large parts of the OECD, and this is a key challenge that proponents of a comprehensive BI have to confront. In response, some have proposed “less universal” versions of a BI that would keep elements of a “rights and responsibilities” nexus intact. A prominent proposal along these lines is the “participation income” (Atkinson, 1996; 2015).⁴ Like a BI, the participation income would be independent of income or family situation, but would only be paid to individuals who are either in paid work, are looking for a job, or are engaged in other socially useful activities (e.g. caring, volunteering, education, or training).⁵

There are other criticisms of using a BI as a principal pillar of social protection. Many of them are plausible and justified, even if some of them are also frequently noted as problems with more traditional forms of income support. For instance, paying income support to middle and higher-income groups, and charging them taxes to finance it, can be inefficient as it amounts to “giving with one hand and taking with the other”. But, as shown in Figure 1, even without a BI, a number of countries, including in parts of Southern and Eastern Europe, pay large shares of benefits to higher-income households. Replacing existing benefits with a uniform BI may therefore reduce support to the rich in some cases.

Likewise, a BI may alter the balance in wage negotiations and there are concerns that it might lead to attempts by employers to reduce wages in response. However, as shown in this note, taxes would increase as well and as long as the reform is budgetary neutral, there would be no net benefit on aggregate making such attempts by employers more difficult. Moreover, similar concerns are relevant also for existing support programmes, notably in-work benefits, and they can be addressed through measures that conserve an adequate representation and bargaining power of low-wage workers (e.g., through statutory or collectively agreed minimum wages). Indeed, proponents of a BI argue that it would play a major role in ensuring adequate remuneration, by giving workers a better “outside option” that would allow them to reject low-paid employment.

From a broader economic-policy perspective, a potential downside of a BI is that, unlike unemployment support or means-tested benefits, it does not act as an automatic stabiliser: since it is paid regardless of income or employment status, spending levels do not go up during a downturn.

3. H. Immervoll and S. Scarpetta (2012), “[Activation and Employment Support Policies in OECD Countries. An overview of current approaches](#)”, *IZA Journal of Labour Policy*, Vol. 1(9).

4. A.B. Atkinson (1996), “[The Case for a Participation Income](#)”, *The Political Quarterly*, Vol. 67(1).

5. In line with work and job-search requirements for recipients of out-of-work benefits in existing social protection systems, exemptions from these conditions might apply to those who are sick or disabled.

What role for BI in making social protection more accessible? Options and drawbacks

As shown by the simple simulations presented in this note, converting all or most existing income supports into a flat-rate, “no questions asked” transfer at modest levels would require substantial additional tax revenues. Even then, a BI may result in losses for substantial parts of the population, and would not significantly reduce poverty from existing levels. The large additional tax revenues that would be required, and the sizeable number of people facing large losses, including among “deserving” social groups targeted by existing income support systems, are among the most immediate obstacles to a large-scale BI reform.

Increasing BI rates to levels that avoid large-scale losses would create additional financing challenges. In addition, more generous BI would likely intensify concerns about unintended consequences of a BI, notably the possibility that some people may work significantly less.

In this context, are there intermediate forms of support that would adopt key aspects of a comprehensive BI but avoid some of its drawbacks?

Introducing a BI while leaving important existing benefits (such as early retirement pensions) in place would limit losses among current benefit recipients. But, at unchanged BI levels, such a reform would also cost much more than the scenarios considered in this note and require a determined effort to broaden the revenue base for financing social protection. Lowering BI amounts to levels substantially below GMI standards, while leaving larger parts of existing benefits in place, may be fiscally more realistic and would make existing social protection more universal. But the BI would then no longer provide significant income protection on its own and it would therefore not represent a complete solution to coverage problems arising with current social protection strategies. A modest BI could nevertheless be desirable if the main aim of such a reform was to more equally share the benefits of globalisation or technological progress, rather than addressing current or future gaps in existing income protection systems. A gradual move towards greater universality may also be desirable in countries where poorer population groups receive relatively small shares of overall benefit expenditures.

Further reading

Browne, J. and H. Immervoll (2017), “[Basic Income as a Policy Option: Illustrating costs and distributional implications for selected countries](#)”, Technical background note.

Immervoll, H., S. Jenkins and S. Königs (2015), “[Are Recipients of Social Assistance 'Benefit Dependent'? Concepts, Measurement and Results for Selected Countries](#)”, *OECD Social, Employment and Migration Working Papers*, No. 162, OECD Publishing, Paris.

OECD (2016), “[Automation and Independent Work in a Digital Economy](#)”, Policy Brief on The Future of Work.

OECD (2016), “[Social Expenditure Update 2016: Social spending stays at historically high levels in many countries](#)”.

OECD Income Distribution Database, <http://oe.cd/idd>.

Widerquist, K., J.A. Noguera, Y. Vanderborght and J. de Wispelaere (eds.) (2013), *Basic Income. An Anthology of Contemporary Research*, Wiley Blackwell.

Another alternative would be to keep mild eligibility conditions in place (as in Atkinson’s Participation Income proposal). This could lower costs by reducing recipient numbers rather than benefit amounts. But the reductions would only be substantial if eligibility conditions were quite strong, in which case the partial BI would become more difficult to distinguish from traditional forms of income support.

Recipient numbers could be cut more significantly if the durations of BI payments were capped, e.g., at a certain number of years during anyone’s lifetime. This type of BI, which could be financed through one-time grants or recurring individual or state contributions, might resemble some aspects of individual accounts, such as those used for administering unemployment benefits in Chile. But compared with existing forms of income support, the ambition of a time-limited BI could be to provide individuals with much greater autonomy in terms of how and when to make withdrawals from these accounts.

A further option for reducing BI recipient numbers, at least initially, could be to introduce it gradually to different groups. For instance, BI entitlements could be rolled out to successive future cohorts of young adults. Since these cohorts would not yet be receiving any other out-of-work benefits, the risk of income losses would be minimal even if the BI were to fully replace existing social protection provisions for successive cohorts.

The basic income shines a spotlight on the challenges, but also on the strengths, of existing social protection systems. A comprehensive BI would represent a major and, to date, largely untested departure from traditional forms of social provisions that would require very determined social and fiscal policy efforts, and would produce both gainers and losers. It is not a one-size-fits-all solution for current and future challenges facing social policy. In view of rapid changes in the labour market the ongoing discussions of BI options do, however, provide a valuable impetus for much-needed debates about the type of social protection that societies want, and for the search of reform options that are socially and politically feasible.

Note

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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