‘Which countries would benefit most and which face the greatest fiscal challenges from implementing basic income?’

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Introduction

• Basic income (BI) = universal, unconditional, and uniform payment

• But BI can vary in how it fits into the tax / benefit system
  • Crucially, what benefits are withdrawn to mitigate against increased net welfare costs

• Two main questions:

  1. **How feasible are different ways of implementing basic income?**
     • Affordability
     • Distributive effects - poverty and inequality

  2. **How does the feasibility of implementing BI vary across diverse welfare states?**
     • See Levy et al. (2006); Vanderbroucke et al. (2012); Browne and Immervoll (2017)
Trade-offs in policy design (I)

- Basic income = extension of social security to all
  - substantive and nominal universality
  - ‘exclusion errors’

- BUT this means increased fiscal costs!
  - Scope for tax rises
  - Need to eliminate/reduce (at least some) benefits
    - Full vs. partial BI schemes

- Elimination of benefits may produce adverse distributional effects unless the basic income is paid at a very generous level
  - Trade-off between minimisation of costs and desirable distributional outcomes
Trade-offs in policy design (II)

• On the other hand, if benefits simply retained and adjusted downwards then many of UBI’s purported advantages would no longer materialise or would be severely limited
  • Radical simplification of welfare
    • Reduction in burdensome, stigmatising conditions
    • Reduction in admin. costs
  • Elimination of poverty and unemployment traps
  • Exit option from paid work
• PLUS fiscal savings would be diminished

• **A policy trilemma** (see Martinelli, 2017) between *affordability, adequacy, and securing the advantages on which basic income is sold*
What characteristics should determine the ‘fit’ between (different forms of) basic income and different welfare states?

- *(In)congruence of existing structure of benefits with BI’s universal and flat-rate structure*
  - Gaps in coverage / shortfalls in generosity compared to BI
    - More pervasive = higher additional net costs associated with ‘plugging the gaps’, compared to countries with relatively generous, quasi-universal provision
  - Generous payments compared to BI: if (some) households already receive relatively generous benefits, it will either
    a) cost more to replace them adequately, or
    b) lead to greater (and potentially unacceptable) income losses

- Role and structure of means-testing and insurance / contributions
  - Means-tested benefits often modulated by need
  - Contributory benefits (especially pensions) often earnings-related

- Pensioners and households with high support needs (e.g. due to disability) lose out?
What did we do?

• Generous payment: 75% of relative poverty line for adults, 30% for dependent children
  • Poverty line calculated for single person household; based on OECD equivalence scale, couples and children under 14 paid 100% of the poverty line

• Four different modes of implementation examined:
  • No adjustments, all benefits retained in full (BI1)
  • Means-tested benefits adjusted downwards, all other benefit retained in full (BI2)
  • All benefits and pensions adjusted downwards (BI3)
  • All benefits and pensions eliminated (BI4)

• Revenue neutral via supplementary flat tax on net disposable income
Net costs of alternative modes of implementation: by country (% of baseline welfare expenditure)

- Where welfare spending is relatively high:
  a. cost of the BI lower in comparison
  b. countries can ‘claw back’ a larger proportion of net costs
     - E.g. Austria, Denmark, Spain, Finland, Germany, Romania, Portugal
- Where welfare spending is relatively low, net costs remain high even when all benefits are withdrawn
  - E.g. Estonia, Croatia, Ireland, Lithuania, Malta, UK
Net costs of alternative modes of implementation: by country (% of aggregate income)

- If the median income is high (compared to mean income), then the gross cost of a BI set in relation to the poverty line will be relatively high as % of aggregate income
  - E.g. Belgium, Croatia, Greece, Italy
  - Links to income distribution? (Karagiannaki, 2017)
- Also depends on demographic composition
Net costs of alternative modes of implementation: by country (% of gross cost)

- BI2 is relatively feasible for countries with high reliance on means-testing
  - E.g. Denmark, Finland, Ireland, Netherlands, UK
  - But still only claws back 10-15% of gross cost
- In countries with generous (earnings-related) benefits (esp. pensions), there is a large difference in cost between BI3 (adjusting benefits downwards) and BI4 (eliminating all benefits)
  - E.g. Austria, Denmark, France, Germany, Greece, Spain, Italy, Hungary, Luxembourg, Portugal, Romania, Sweden
- In countries with relatively residual (flat-rate) benefits, very little difference in net costs between BI3 and BI4
  - E.g. Bulgaria, Estonia, Ireland, Lithuania, Netherlands, UK
Countries with generous payments structures for poor households see minimal reductions in poverty... and even *increases* when all benefits are withdrawn.
Effect of alternative mode of implementation on Gini coefficient: by country

Similar for inequality...
% of poorest quintile losing at least 5% of previous income: by mode of implementation and country

- Even when BI is generally progressive (poverty reducing), large numbers of low income households can still lose out
- Less of a problem in residual welfare states?
Conclusion: feasibility of BI

• In general: the more fiscally affordable, the less desirable / worthwhile in distributional terms
  • Residual welfare states would benefit hugely and relatively few losers BUT fiscal challenges are acute
  • BI relatively affordable for generous welfare states via elimination of existing welfare spending BUT gains are less pronounced and household losses more likely
• Losses among poor households more likely to arise when provision is earning-related OR in systems heavily modulated by need
• Small group of countries that appear relatively well-suited to BI – Romania, Spain, Portugal, Hungary
• A “demand-capacity paradox” (Siöland and Parolin, 2018)?
Thank you!

References


