‘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  - Crucially, what benefits are *withdrawn* to mitigate against increased net welfare costs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**

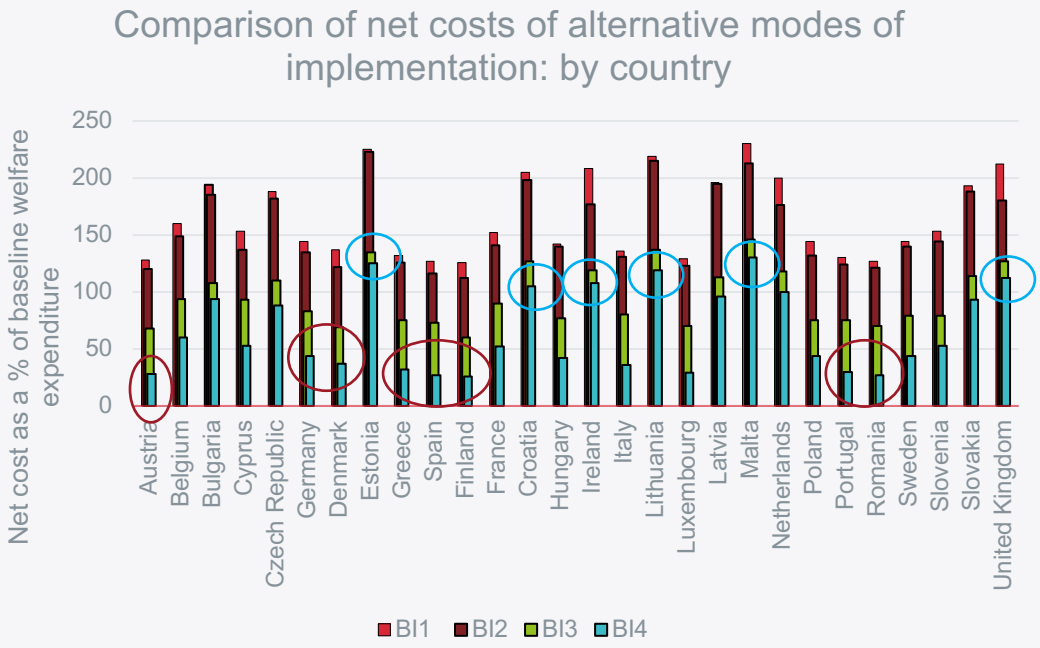
Net costs of alternative modes of implementation: by country (% of baseline welfare expenditure)

- Where welfare spending is relatively high:

a. cost of the BI lower in comparison

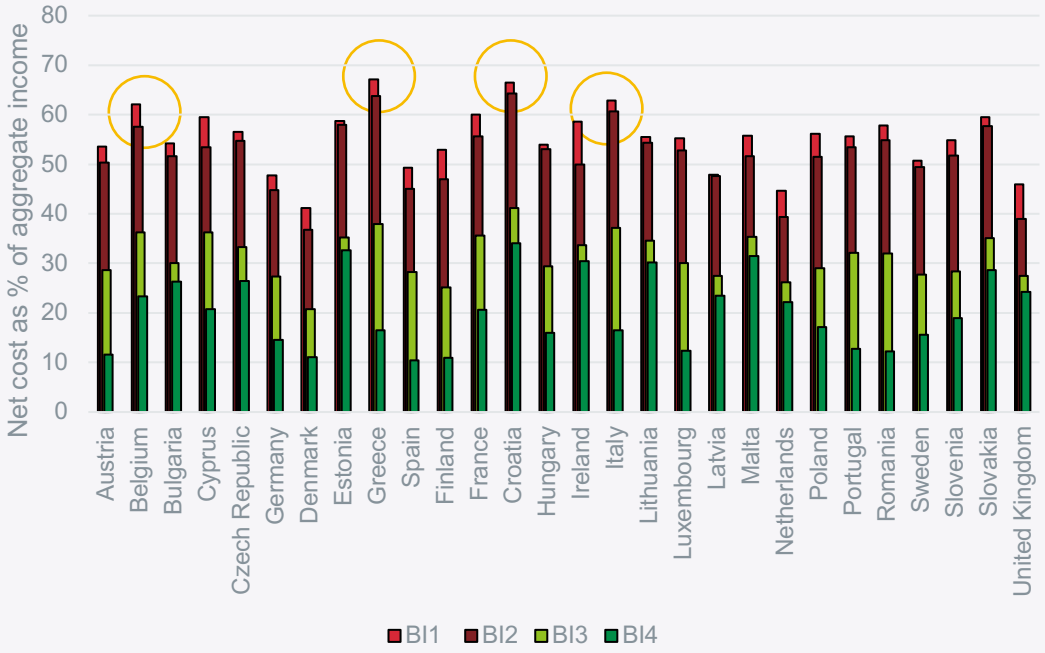
b. countries can 'claw back' a larger proportion of net costs
    - E.g. Austria, Denmark, Spain, Finland, Germany, Romania, Portugal

- Where welfare spending is relatively low, net costs remain high *even when all benefits are withdrawn*
    - E.g. Estonia, Croatia, Ireland, Lithuania, Malta, UK



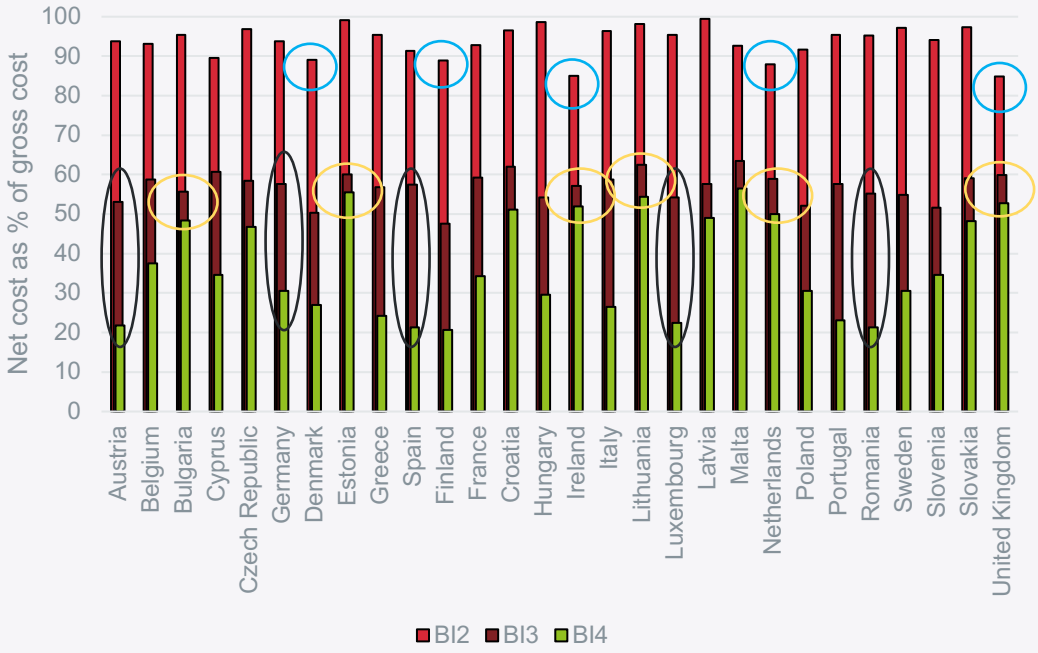
Net costs of alternative modes of implementation: by country (% of aggregate income)

- 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, Demark, 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

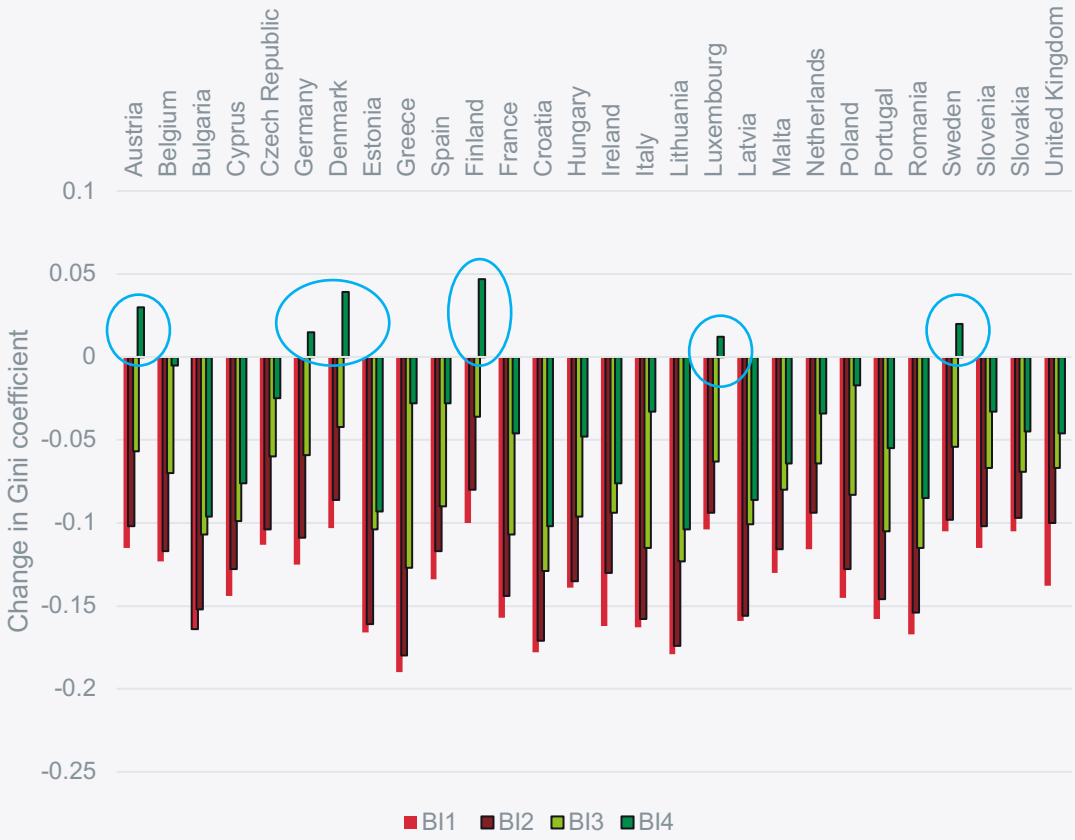


Effect of alternative modes of implementation on poverty alleviation: by country

Countries with generous payments structures for poor households see minimal reductions in poverty… and even *increases* when all benefits are withdrawn

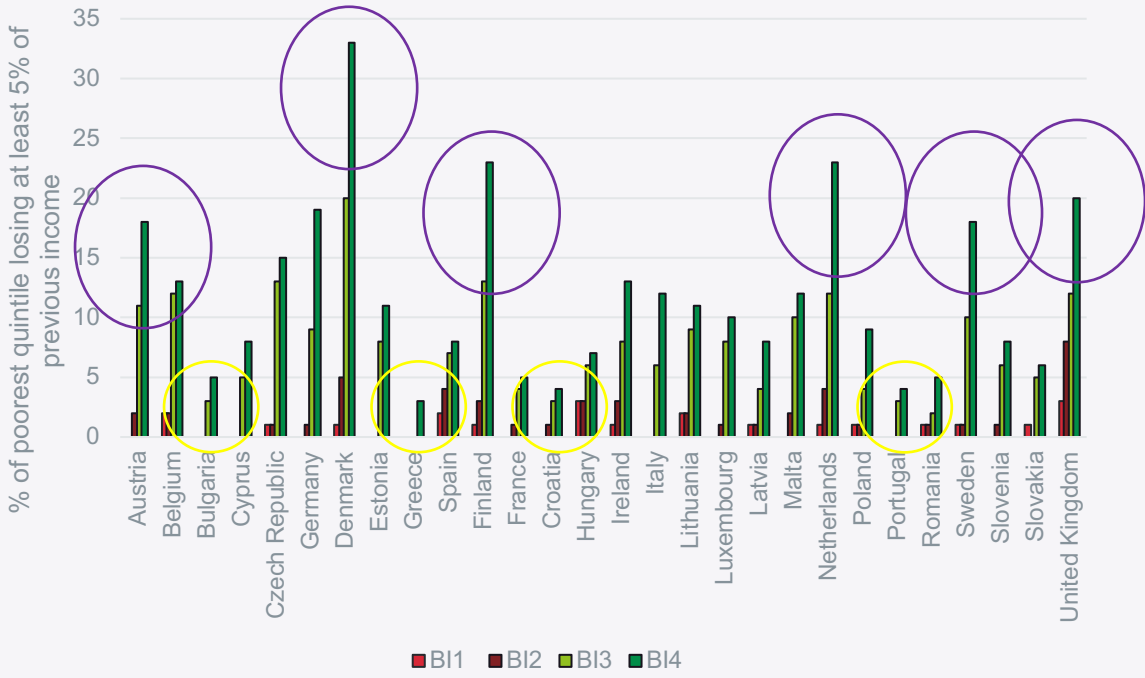
Effect of alternative mode of implementation on Gini coefficient: by country

Similar for inequality…



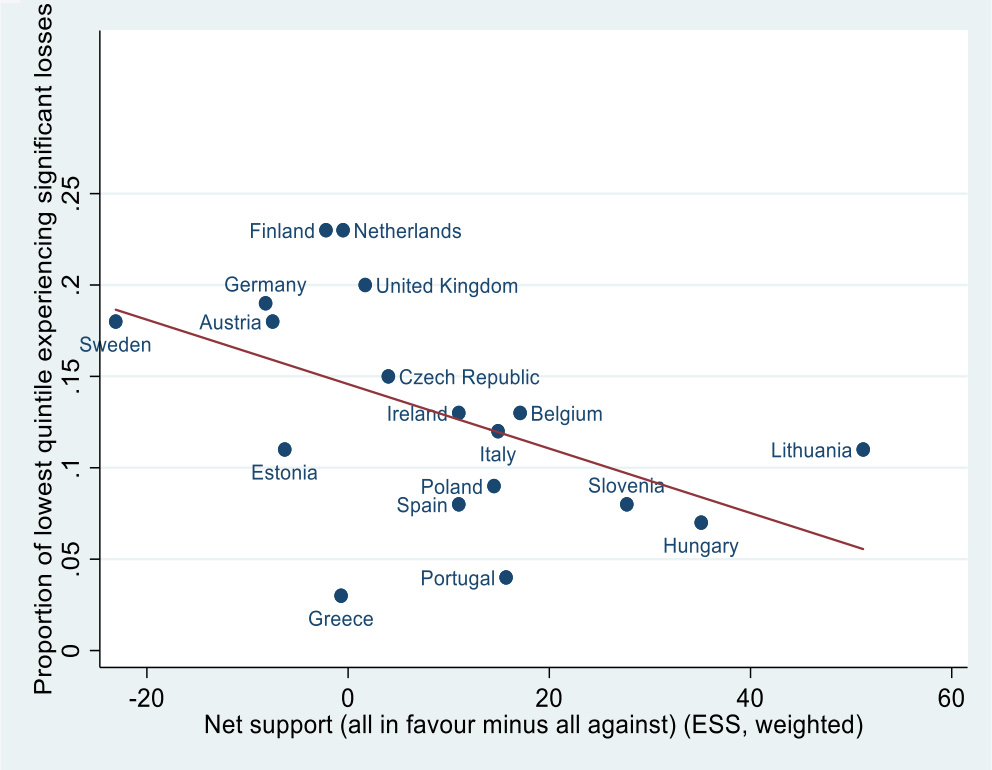
% of poorest quintile losing at least 5% of previous income: by mode of implementation and country

- 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!

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