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BASIC INCOME AS A POLICY OPTION CAN IT ADD UP?

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Across OECD: Concerns about poor accessibility of income support



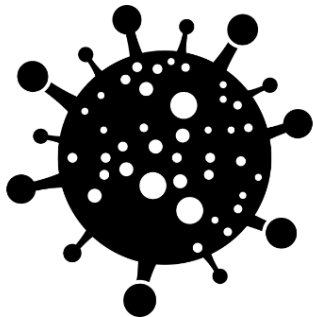
Rising inequality

- **growth** shared unequally
- **government transfers** less effective at reducing inequality



Sizeable **coverage gaps** in key areas of social protection

- share of **unemployed receiving benefits fell** in 2/3 of OECD countries after the 1980s
- OECD on average: < 1/3 of jobseekers receive unemployment benefits
- **Automation and the ‘Future of Work’**: concerns about a decline in employment and/or growth of new forms of precarious employment, that give little access to social protection



COVID-19 pandemic

- Economic and social fall-out



Cash for everyone: Universal Basic Income proposals are much in the news

- Several past, ongoing or planned **pilots**:
 - Finland (only national pilot so far)
 - A growing number of further (often private) initiatives: Small-scale (e.g., [Stockton](#), California; [Germany](#)), and larger (e.g., [Maricá](#), Brazil).
 - Proposals discussed or prepared in other places, but initiatives abandoned in others. Also a decisive “no” vote in a 2016 Swiss referendum
- **But is it a UBI?** Debates or reporting on “UBI” are sometimes about related, but quite different, initiatives
 - e.g., tightly targeted anti-poverty benefits (recently Spain, earlier in Italy)
- Idea appears **popular in principle**
 - Eg 68% support in one survey of EU-28...
 - ...but evidence that support fades when people are shown details of feasible benefit amounts or of the tax rises needed to finance it



Universal Basic Income

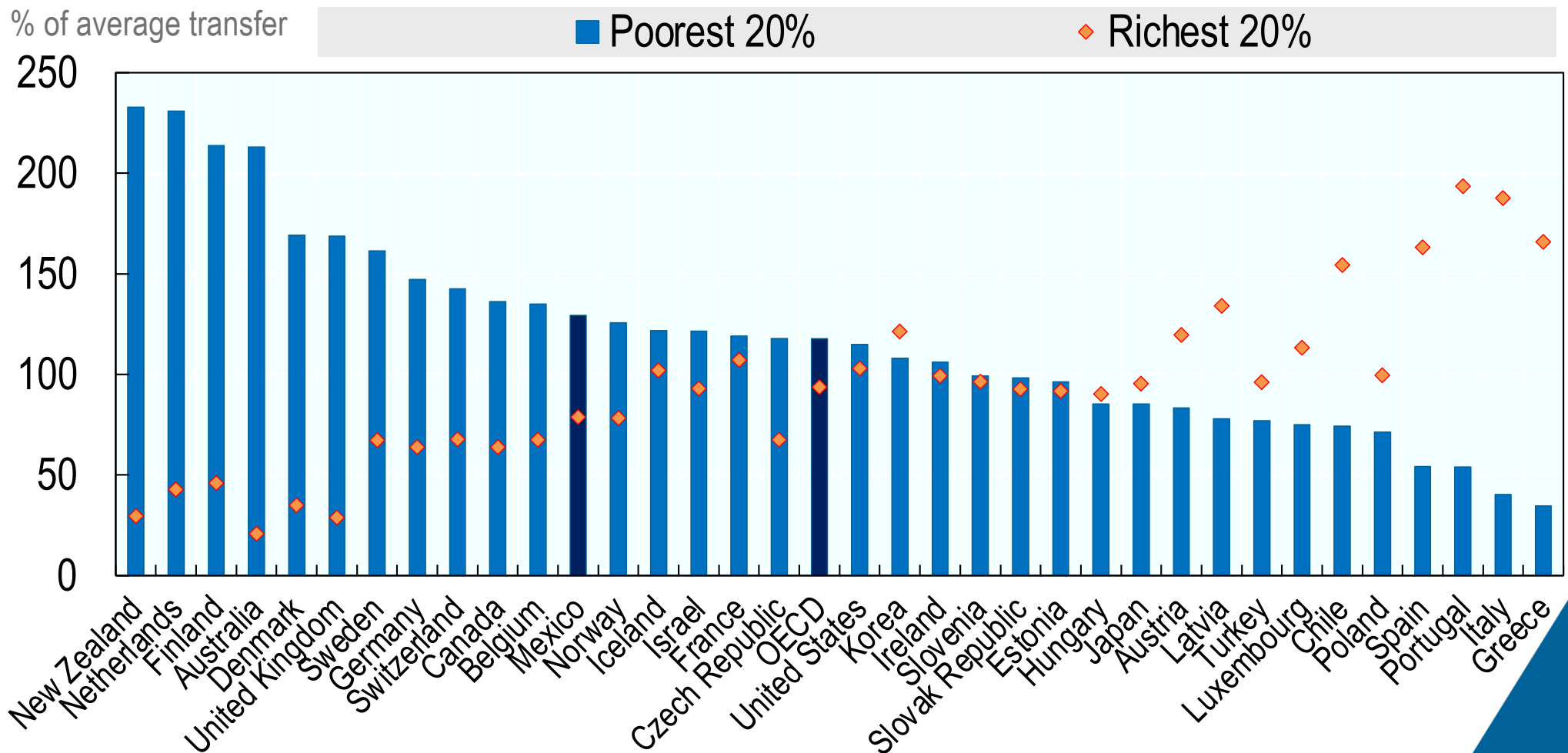
Not one objective, but several...

- **“Not just redistribution but a moral statement”**
Income security to help:
 - delay work or shorten hours to pursue education & find suitable career,
 - take entrepreneurial risks,
 - undertake unpaid work, ...
- Tackle **poverty** or **inequality**
 - also including across generations,
 - between men and women
- (More) **equal sharing** of the returns from economic progress, or from the use of a natural resource
- Make social protection **“less complex”** or **“more accessible”**
 - including for non-standard workers
- Complement and enable (rather than replace) **self-sufficiency**
- A **“small(er) state”** agenda
 - E.g., cash instead of services?



Existing cash support can be patchy, not always tightly targeted to the poor

Transfers received by low and high-income groups, working-age individuals, latest year available





Universal Basic Income

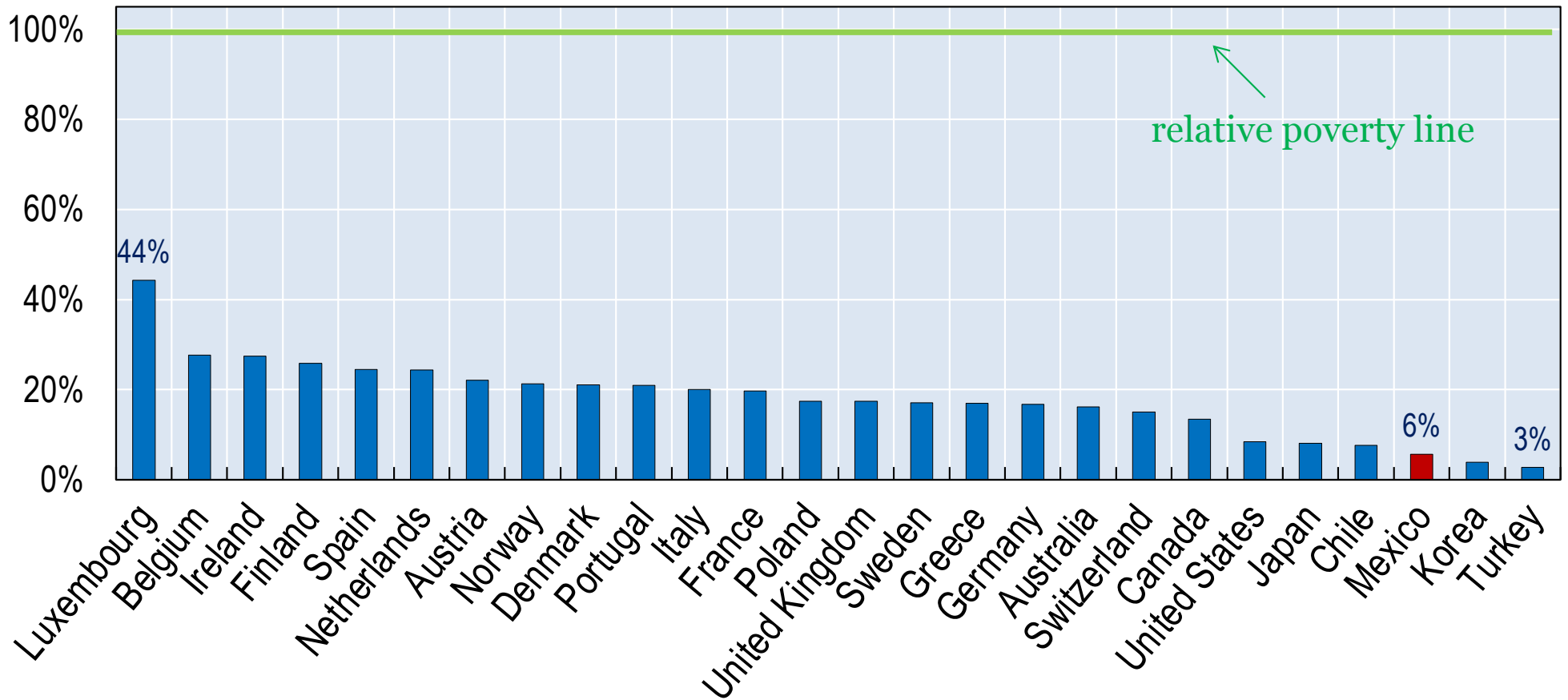
Lots of interest, but also unanswered questions

- **Inefficient targeting? High budgetary costs?**
“gains for the rich”, “pay with one hand, receive with the other”
- **Negative effects on employment?**
erosion of work incentives? “Why would anyone still work?”
- **No automatic stabiliser? No risk sharing?**
unconditional payments are not counter cyclical, no transfer from “lucky” to “unlucky” people
- **Can’t engage jobseekers in active labour-market policies?**
difficult once the link between benefits and active job search is broken
- **(Further) downward pressure on wages?**
would employers “pocket” a new Basic Income by lowering wages?
- **Concerns are often justified.**
But: They are also voiced about existing social protection.
In practice, costs & benefits vary by country.
- **What could a UBI look like in practice?**
 - What are the **budgetary costs**?
 - Distributional effects: **Who would gain or lose?**



Current benefit spending: (Nowhere) enough to finance a Basic Income close to the poverty line

Basic Income amount that is equivalent to current spending on working-age benefits
current per-capita spending, in % of relative poverty line



Notes: poverty threshold at 50% of median disposable income. “non-elderly” benefits is total spending on public cash transfers minus old-age and survivors categories. Social assistance amounts exclude support for rented accommodation. Sources: OECD Social Expenditure (www.oecd.org/social/expenditure.htm) and Income Distribution (oe.cd/idd) databases, OECD tax-benefit models (www.oecd.org/social/benefits-and-wages.htm).



Designing a UBI: Several key departures from common principles of benefit policy

Who receives it?
Selected groups, or truly universal & unconditional?

Changes in other parts of the social protection system
Replace or keep existing benefits / services?

What amount?
National / regional?
Anchored relative to poverty threshold, existing social benefits, minimum wage?

Design decisions

Tax changes
Abolish tax exemptions?
Tax the basic income?

Individual or household based?
Different amount for adults, children, old/young?

Budget constraint
Incur a net cost or budget neutrality?



A “what if” analysis to inform reform debates. Simulating the introduction of a UBI for working-age families: Budgetary neutral, value based on existing GMI benefits

Basic Income amounts that would cost the same
as existing benefits and tax exemptions

	BI amount paid to working-age adults	
	monthly	% of poverty line
Finland	€527	49%
France	€456	50%
Italy	€158	21%
United Kingdom	£230	33%

Notes: Hypothetical reform where a Basic Income would replace most existing working-age benefits, as well as the main tax-free allowance / zero-tax band that was in place in 2015. BI amounts are shown after tax. Full details are in the paper.

Source: OECD calculations using EUROMOD.



Even a modest UBI requires big tax increase & savings from lowering other benefits

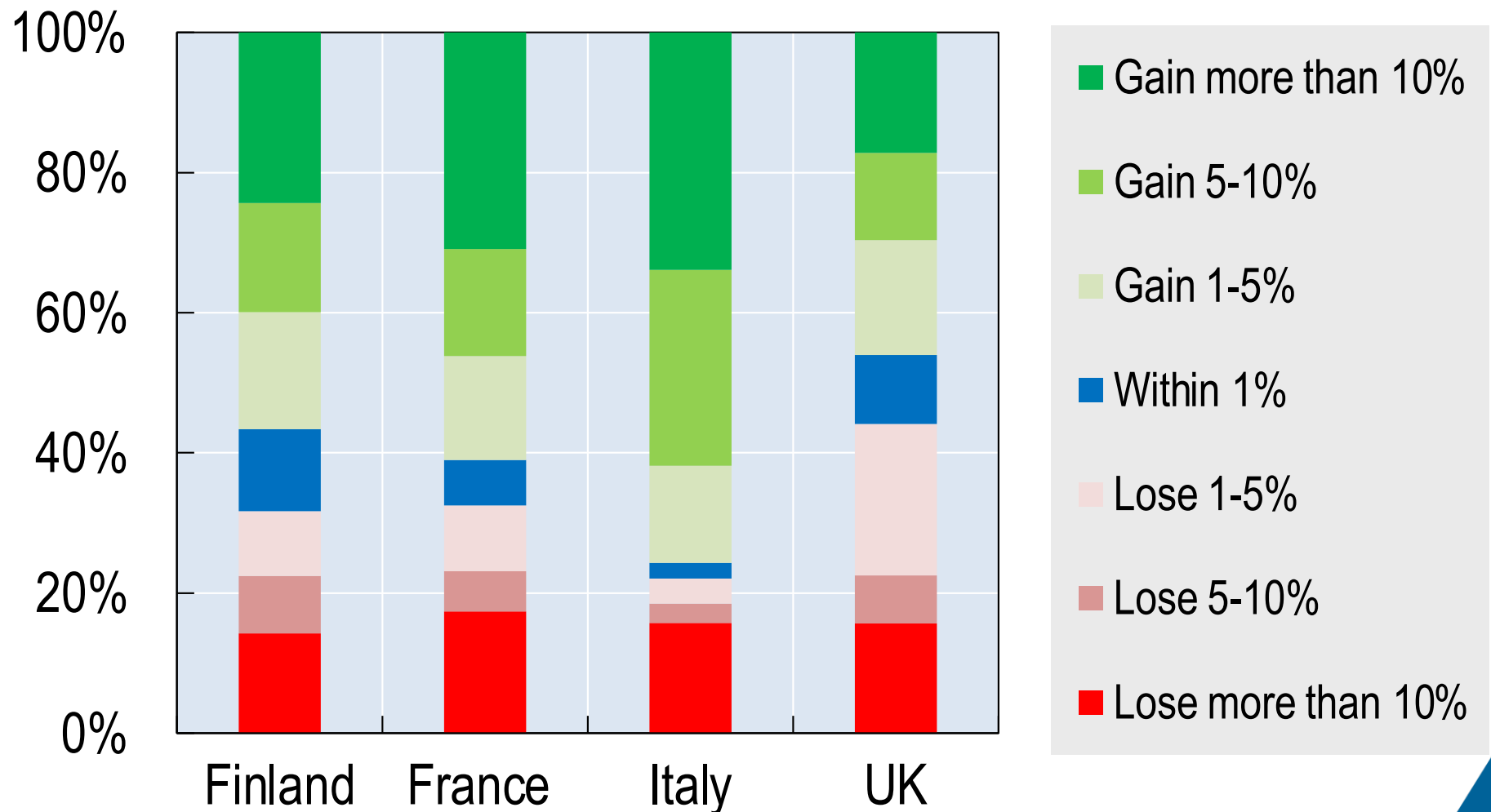
Aggregate changes in tax revenues and benefit spending

	Reduction in other benefits	Increase in income taxes
	% of GDP	% of GDP
Finland	-6.7%	+10.2%
France	-5.3%	+5.6%
Italy	-5.2%	+2.0%
UK	-2.9%	+6.1%



Major gains or losses: Few people would see their incomes unaffected

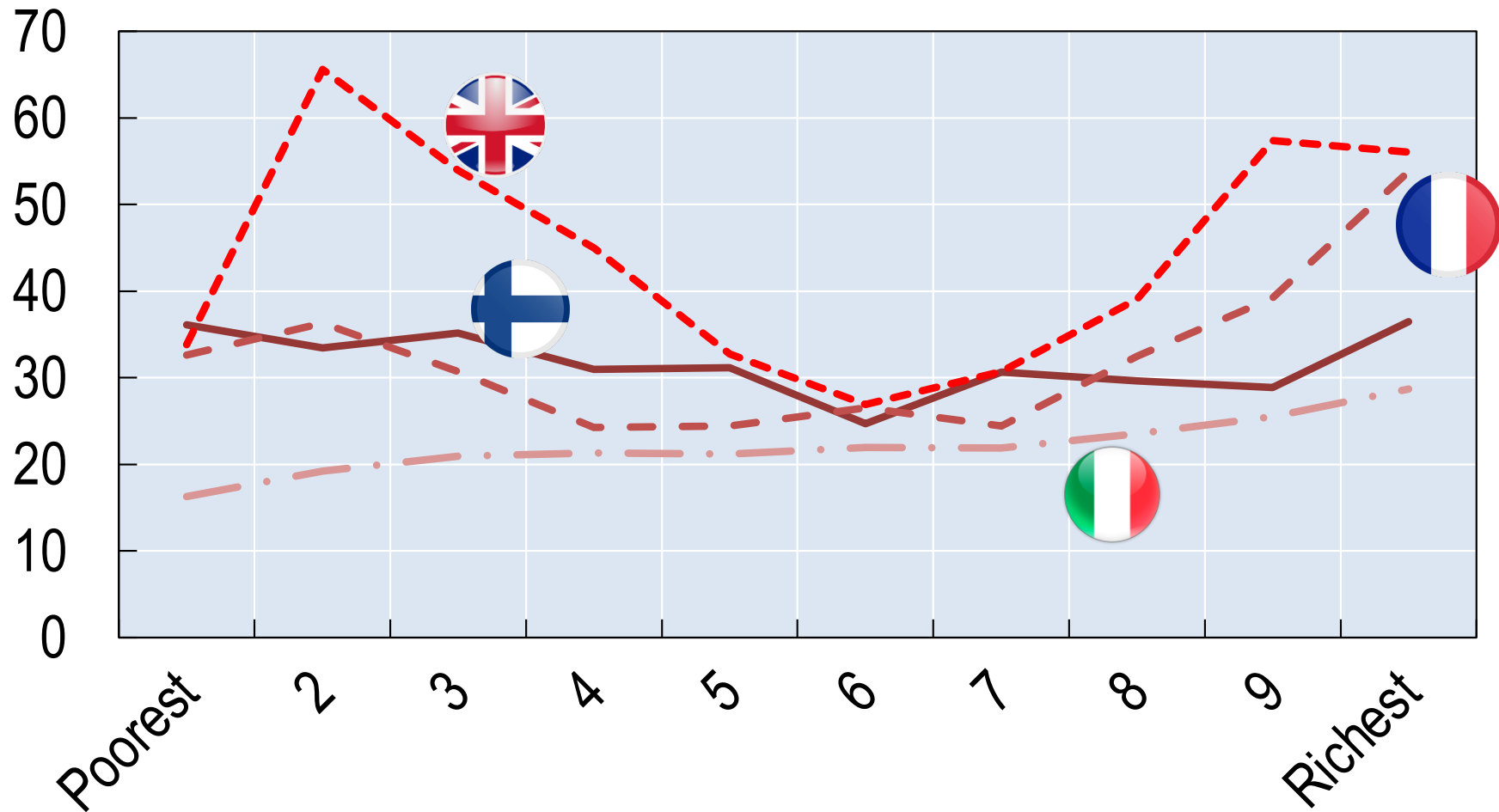
Number of gainers and loser, % of all BI recipients





Losses more common among the poor and the rich, middle more likely to gain

% losing, by income





Some people are lifted out of poverty, but others fall below the poverty line

in % of people at or below working age

“falling below poverty line”

		In poverty under basic income?			
		No		Yes	
In poverty under existing system?	No	UK: 83% France: 87%	Finland: 90% Italy: 83%	UK: 7% France: 6%	Finland: 3% Italy: 4%
	Yes	UK: 2% France: 3%	Finland: 2% Italy: 4%	UK: 8% France: 4%	Finland: 5% Italy: 9%

“moving above poverty line”



Findings for Europe: Budget and distributional effects of a comprehensive UBI

- **What is needed to finance a budget-neutral UBI** for individuals below normal retirement age?
 - a **modest UBI level**, set significantly below the poverty line
 - abolishing most **existing benefits**
 - substantial additional **tax revenues**
- Universal benefits do **alleviate coverage problems ...**
- ... But without targeting, or much higher spending, **poverty risks can increase as current benefit recipients lose out**, especially for
 - countries with comprehensive existing social protection
 - older working-age individuals if early retirement is common
 - recipients of unemployment insurance benefits
 - some families with children who already receive support



Specific context in Mexico today, and implications for UBI debate

- Current **social spending** is low
- Social protection remains **inaccessibly** for large parts of the population, and **highly fragmented**, especially for working-age
- **Tax base**, including for carbon taxes, remains narrow, but still strong reliance on expensive fuel subsidies
- **Informality**, high not only by OECD standards but also compared to other emerging economies
- Recent / ongoing experience with introducing **universal elements in old-age pension**
- Exposure to **COVID crisis**
 - need to scale up support quickly (can't afford **not to** strengthen support)
 - political economy: Protect essential spending from later cut-backs (“ring fencing”)

➔ In practice, is “no targeting” the best way of reaching those in need?



A “partial” Basic Income?

- Instead of replacing (most) existing benefits, **UBI as an additional transfer?**
- **Gradual roll-out?**
 - Only to **children or new cohorts of young adults?**
 - A **modest UBI** amount to start with, increasing later as other benefits are phased out?
- **Limit duration?**
 - Limit receipt to certain overall period during lifetime?
 - transfer unused amounts to pensions account?
- Scope for **making existing benefits more accessible?** But need not be alternative to UBI, could it be done in parallel?
- In spite of time pressures, need **careful evaluation before general roll-out**. OECD stands ready to provide input as useful
- **Scope for experiments**, even as part of roll-out?
 - Building on Mexico’s reputation for rigorous social programme evaluation

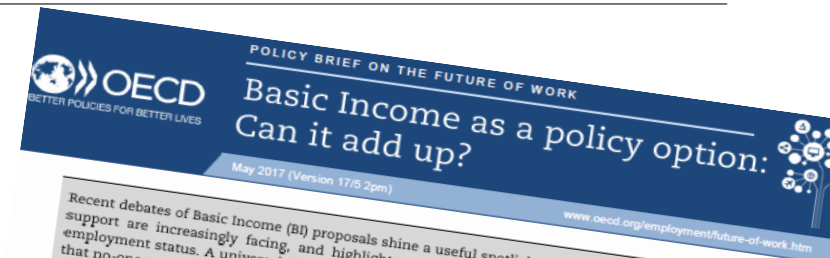


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Sources and references

- [“Basic income as a policy option: Can it add up?”](#)
- [Left on your own?](#) Social protection when labour markets are in flux
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- [Reforming Mexico’s labour market and social policies](#)
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Recent debates of Basic Income (BI) proposals shine a useful spotlight on challenges 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 it 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, and they would require 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 [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 ([OECD 2016, Society at a Glance](#)). 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.



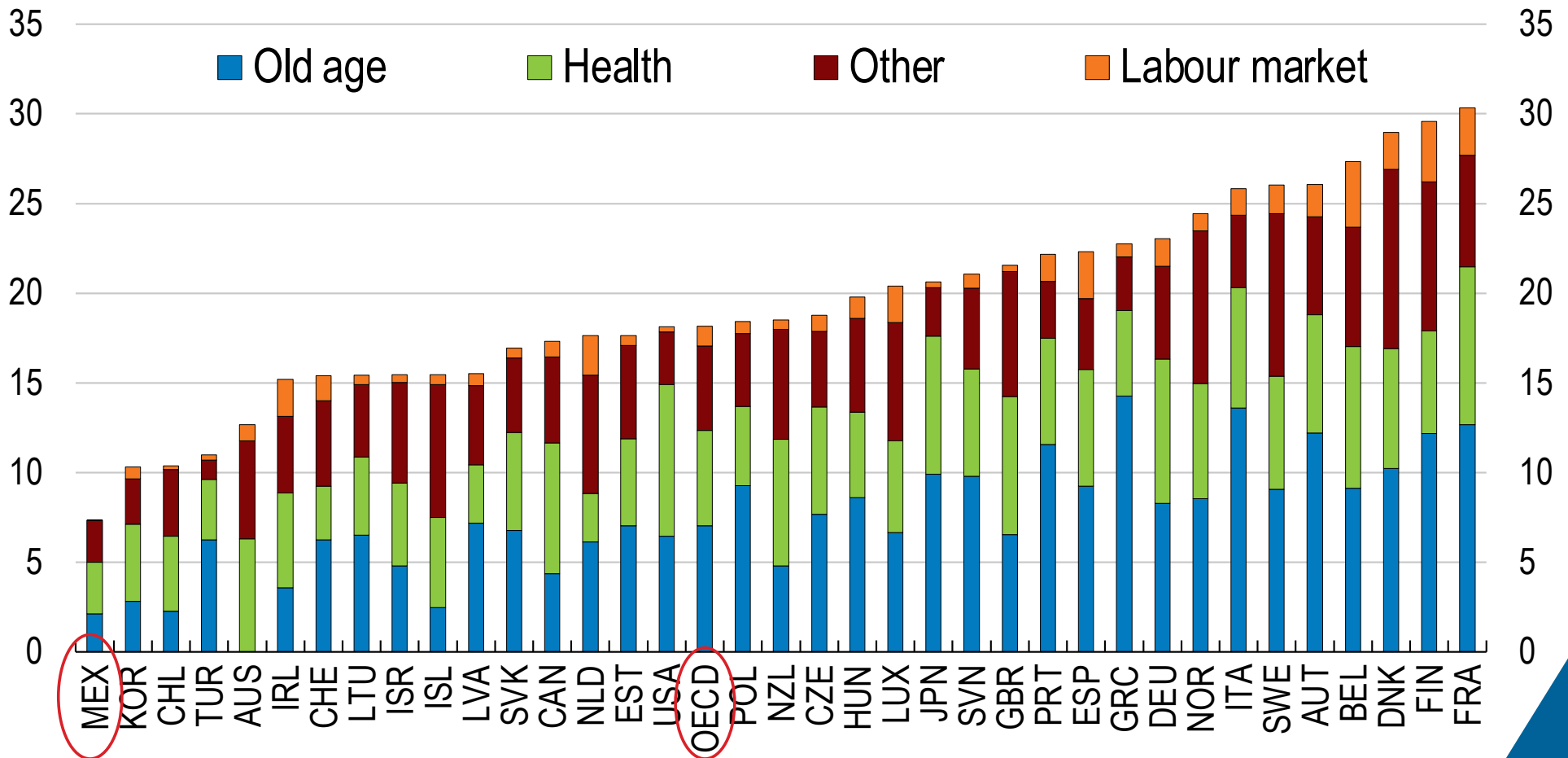


ADDITIONAL SLIDES



Social spending has increased but remains low

A. Social spending
% of GDP, 2017 or latest year available



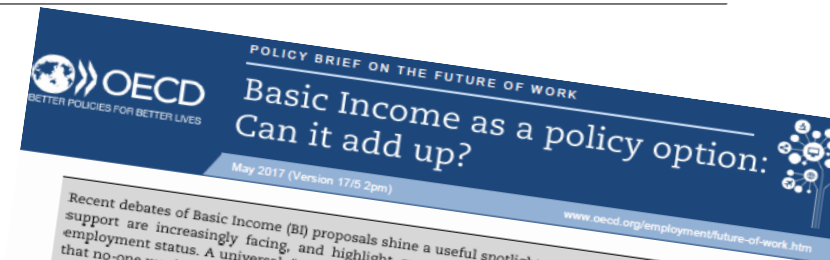


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