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(Un)conditional Basic Income: The End of Work as We Know It?

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(Un)conditional Basic Income: The End of Work as We Know It?

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The concept of basic income

The idea of *unconditional* basic income (UBI) has been floated a number of times during the ages, going back as far as the 16th century. The ideology behind the suggested changes in social security policy tends to be either ending poverty and lowering inequality, or replacing most of the current social benefits.

It was proposed by American founding father and political activist Thomas Paine. In his essay on “Agrarian Justice”, published in 1797, he defends the property rights of landowners, but argues at the same time that “those who have been thrown out of their natural inheritance by the introduction of the system of landed property” should be compensated by a basic income of some sort.

The rekindled interest in the matter likely stems from the global financial crisis of 2008, which instigated a discussion in many countries on what level of social security they could afford to provide for their citizens. And also recently from the discussion focused on the so called fourth industrial revolution, digitalization a robotization that may cause significant decrease in the demand for human labour.

Proponents of the basic income argue that it provides citizens whose jobs are automated with a guaranteed income, allowing them to retrain themselves or become an entrepreneur. They envision a hyper-productive economy, where robots do most of the work and people are freed

from having to perform an economic activity. Instead of having to earn a livelihood, it is provided for them by the basic income. This means that they can dedicate themselves to performing non-economic activities, such as caretaking, artistry, volunteer work and social engagement.

We further examine in this paper whether or not this model is a solution to an increasingly automated - digitized - society, or if it is simply another unrealistic economic and social model with no real means of implementation.

Economic sustainability of UBI - the case of Belgium

While it is being argued that an unconditional basic income could reduce issues regarding income equality, poverty and the effects of artificial intelligence and robotics, a valid critique is how incredibly costly the system would be. Not to mention the macroeconomic effect of artificially increasing the purchasing power of an entire economy by a fiscal income hike. In purely economic terms the market prices will adjust to reflect the new income levels.

There is a lot of questions surrounding the financial and economic viability of a basic income. This is especially the case when UBI is considered to be a substantial for recipients to live on, which is a necessary condition for the potential benefits described above to materialise.

Almost all basic income proposals have in common that UBI replaces social security and welfare benefits. A large part of the basic income funding can therefore come from the resources that are no longer needed to spend on social security and welfare. However, if you look more closely at what these systems entail, it becomes apparent that you can only partially replace them with a basic income.

Looking at pensions in Belgium for instance, we find that for most current retirees, the pension funded by social security is, if not their only, then at least their most important, source of income. If their pension were replaced by a basic income equal to the poverty line, 36.99 % of private sector pensioners and 86.10 % of public sector pensioners would lose.

Reducing existing pensions is nigh on impossible from a political point of view. Citizens have expectations regarding the pension they have worked and paid social contributions for over periods spanning 40 years or more. They rightly feel that their pension is effectively theirs and therefore not something that a government can take away. Moreover, from a legal point of view, lowering existing pensions probably wouldn't even be permissible. The most that would be possible would be for the pension system to be phased out over multiple decades.

The second-biggest component of social security in Belgium is healthcare expenses. Costs incurred when visiting a doctor, being hospitalised, undergoing surgery, or buying medicines are largely reimbursed by social security, which also subsidizes hospitals directly and funds special medical programs. It is highly unlikely that even a small part of these expenses would be eliminated in a basic income scenario.

The purpose of a basic income is to provide people with a guaranteed income so that they have the freedom to lead their lives they want to. However, if you have the misfortune to catch a serious disease, and your medical expenses are no longer covered by social security, then a large part of your basic income will go to paying doctors and hospital bills. Eliminating some or all social security-funded healthcare, would mean that the basic income would be partly funded at the expense of sick people.

If we analyse all components of social security and welfare in Belgium and assess separately for each of them whether a basic income can replace them, partially or entirely, than we can calculate how much money can actually be saved. Subtracting this amount from the total cost of the basic income, the net cost of the basic income can be calculated. This analysis and calculation can obviously be performed for different basic income levels.

For instance, if a monthly basic income of €1,085 is chosen, which is equal to the poverty line, then it is found that the net yearly cost of the basic income still amounts to €71.17 billion. So even when taking into account savings made by partially replacing social security, such a basic income would require savings and/or extra revenues worth 16.9 % of GDP. If a basic income of € 800 is chosen, then the net cost equals € 48.79 billion or 11.6 % of GDP. To fund a basic income of €300, €12.65 billion or 3.0 % of GDP is needed.

Even in the case when the government in Belgium would potentially save a total of € 44.5 billion per year, it is not enough; the total cost of Unconditional Basic Income would be over € 100 billion, and thus cause an extreme deficit fillable only through massive increase of corporate or individual taxation.

Social system reform - the Finnish experiment

While the UBI is hardly sustainable in its true *universality*, it is often being quoted as a solution for the reform of various social security systems. In the United States it is predominantly being viewed as a basis for the almost nonexistent social security network.

In Finland the debate on public spending has been dominated by the increasing number of elderly (retired) people who will need to be cared for by a decreasing number of taxpayers (Figure 1). On the one hand, people are living longer and being healthier, but on the other hand health care costs are steadily rising, as is income inequality. Despite Finland being one of the most income equal countries in the world.

This growing number of societal dropouts has made politicians aware of the fact that while many of those living on benefits are struggling to make ends meet, or even losing out on benefits they are entitled to because of the immense bureaucracy involved, others are (ab)using loopholes in the system to reap more benefits than they should.

In addition to this issue, the current social security system has also demonstrated a certain number of so-called disincentives to work. While only earnings that exceed the exempt amount of € 300 are included when calculating the unemployment benefit, the disincentive comes from losing most if not all benefits when taking on a job. This is especially an issue when accepting part-time work. A sometimes cited example is the single mother with two children living

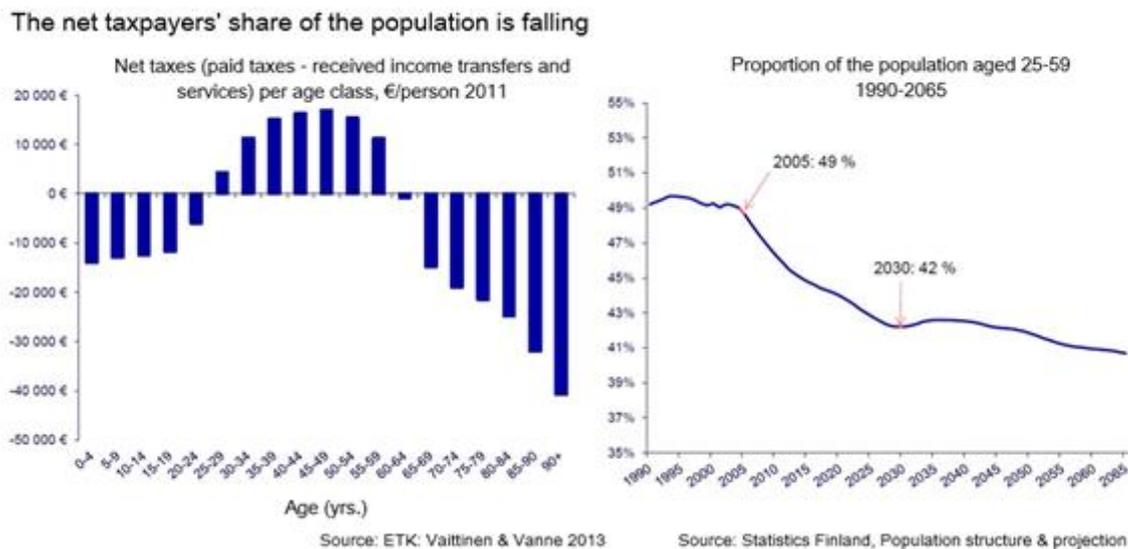


Figure 1 Net taxpayers in Finland

Despite a growing number of healthier people, there is also a fair amount of people who are falling between the cracks. In other words, people who are unable to find work, unable to work even if they do find work or are unable to care for themselves. Who, in essence, risk falling outside of society.

in the fifth largest city in Finland who would have to find work that pays around € 2 500 per month to receive the same net income that she does on benefits.

The current 200 person study is being conducted, in which each participant receives 560 euros a month. Finland currently has an extremely high social

security and taxation system. However, this often results in an abuse of the benefits and disincentives work. The goal of Finland's project was to remove the disincentives to work, while still maintaining the same (or close to the same) cost for the Finnish taxpayers.

The Finnish example of the 'basic income experiment' is a good example in that respect. We put basic income experiment within brackets for a reason. The experiment has already featured widely in the European press. However, the Finnish basic income experiment has to be seen in the light of reducing the unemployment trap associated with Finnish unemployment benefits. By selecting random recipients to take part in a two-year pilot study to see how getting a basic income, rather than jobless benefits, might affect incentives in the labour market, Finland is leading the way in experimenting with such a benefits.

Conditional basic income

The models of *conditional* basic income (CBI) build on the premise that all citizens should be guaranteed a certain economic security, just like the current social security system in Finland does. In most CBI-models the state's input varies based on the individual's income. For a person with no income, the state provides a minimum security on which everyone should be able to manage. As the individual's income increases, the state's input decreases through income taxation, only to cease entirely once the income reaches a sufficient level.

Critics of this system claim that it could and would be abused by people not wanting to work. That may be the case, but this is already happening in the current system. The only difference is that due to the social security being taxed away from increased income rather than being removed entirely

in one go, as is the case in current social security systems, there is always an incentive to seek employment. The point is that individuals who work by definition have better net income than people who do not.

Most recently the conditional basic income – instead of unconditional basic income – was proposed by Andrew Ng, formerly the head of AI for Chinese search giant Baidu and, before that, creator of Google's deep-learning Brain project and the founder of Coursera.org. According to Mr. Ng, artificial intelligence is coming for plenty of jobs and we need an updated version of the New Deal, the Depression-era economic program that invested in getting unemployed Americans back to work. Nowadays it should be done by paying displaced workers to learn new job skills. Future waves of innovation, he argues, will bring even “more profound changes to job markets, and we will need a way to adapt to them.”

Those in jobs Mr. Ng thinks will be automated, from call-center workers to radiologists, truck drivers shall be provided with the CBI, not the UBI. According to him, unconditional basic income just encourages people to be “trapped in low skilled jobs without a meaningful path to climb up to do better work.” So rather to pay people to “do nothing” we should rather pay them to study. Incentivizing people to study increases the odds that the displaced worker can gain the skills they need to reenter the workforce and contribute back to this tax phase that gives as this engine of growth of the economy.

However, the goal of a conditional basic income still ought to be reduction of income inequality and poverty, but it would be done through removing disincentives to work. The aim would be for work to always be worthwhile. This would be done by

giving social security to those who need it, and taxing it away from those who don't.

UBI/CBI - a liberal solution?

Nevertheless, the basic income is an interesting notion, especially in the form of CBI, when the *conditionality* is based on retraining of workers to gain new skills and adapt for new jobs given by the digital transformation of economy.

The basic income in this sense is a very interesting notion from a liberal point of view. Liberal democracies already guarantee an extensive set of fundamental freedoms to their citizens. Freedom of speech, freedom of assembly and freedom of religion are constitutionally protected. Materially however, people are not free. To be able to lead their life as they want to, they need to earn an income. For most of them, this means they have to work. Therefore the basic income could be the next frontier for liberalism and the quest for ultimate freedom.

Conditional Basic Income seems to be a plausible solution for those whose jobs are going to be lost in the forthcoming era of automation. However, it would probably defeat the original definition of Unconditional Basic Income. Gaining degree also does not mean automatically gaining new employment and it can be wasting the taxpayers' money. However, it is interesting and promising idea that shall be studied further.

About the authors

Jan Van Cauwenberghe works for Studiecentrum Albert Maertens, Niklas Mannfolk is former Vice President of Finland's RKP party, Jan Klesla currently serves as economics commentator of Lidové noviny daily. They all participated at the Business Breakfast on the Universal Basic Income, held in Prague at 31 October 2017 and organized by the IPPS