

POSTCARD

56. Unconditional basic income

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The idea of an unconditional basic income (UBI) is quite simple: every legal resident in a country receives a monthly stipend sufficient to live above the poverty line. Let's call this the 'no frills culturally respectable standard of living'. The grant is unconditional on the performance of any labour or other form of contribution, and it is universal – everyone receives the grant, rich and poor alike. Grants go to individuals, not families. Parents are the custodians of under-age children's grants, which may be smaller than the grants for adults.

Universalistic programmes such as public education and healthcare, that provide services to people rather than cash, continue alongside UBI, but most other redistributive transfers are eliminated since the UBI provides everyone with a decent subsistence. This means that in welfare systems that already provide generous anti-poverty income support through a patchwork of specialized programmes, the net increase in cost represented by UBI is not large. Special needs subsidies of various sorts continue – for example, for people with disabilities – but they are also smaller than now since the basic cost of living is covered by UBI. Minimum wage rules are relaxed, since there is little need to prohibit below-subsistence wages if all earnings in effect generate discretionary income. While everyone receives the grant, most people at any given point in time are probably net contributors since their taxes rise by more than the basic income they receive.

UBI has potentially profound ramifications for inequality. Poverty is eliminated, the labour contract becomes more nearly voluntary, and the power relations between workers and employers become less unequal since workers have the option of exit.

The possibility of people forming cooperative associations to produce goods and services to serve human need outside the market increases since such activity no longer needs to provide the basic standard of living for participants.

Sceptics of basic income typically raise two main objections: that UBI would reduce incentives to work and reduce the supply of labour, and that the tax rates needed to fund UBI would be prohibitively high.

Two things can be said about the incentive issue. First, means-tested income support programmes are plagued by poverty traps in which people lose their benefits when their earned income crosses some threshold. By contrast, a UBI creates no disincentive to work. Paid work always increases the discretionary income of people with a UBI. Second, while no country has adopted a full basic income, there have been a few limited experiments in various places in the world which enable us to examine the effects of UBI on labour force participation. In the United States and Canada in the 1970s there were a number of randomized controlled trials, most notably in Seattle and Denver, in which randomly selected low-income individuals received a UBI. More recently, in India in 2011, eight villages were selected in which all residents were given a basic income. In all of these experiments, receiving a UBI significantly improved the lives of people while having at most a modest effect on labour force participation.

The level of taxation needed to pay for a basic income is, of course, an important issue. But the sustainable level of taxation in any country is not mainly an economic issue. It is a political issue that depends on the administrative capacity to extract taxes and the political will to do so.

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