POVERTY & INEQUALITY BASIC INCOME

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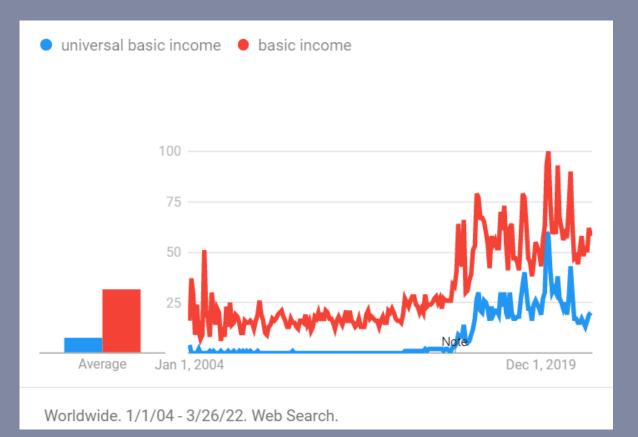
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INTRODUCTION

- What is basic income?
- What is it trying to fix?
- Does BI work better than other systems?
 - In advanced countries
 - In the US
 - In developing countries
- Examples in the real world?
 - Alaska
 - Finland
- What is negative income tax?



BACKGROUND

WHAT IS A BASIC INCOME?

- Definitions vary
- Cash rather than in-kind
- No means test
- No work requirement
- Paid regularly
- Given to individuals rather than households
- Fully taxable

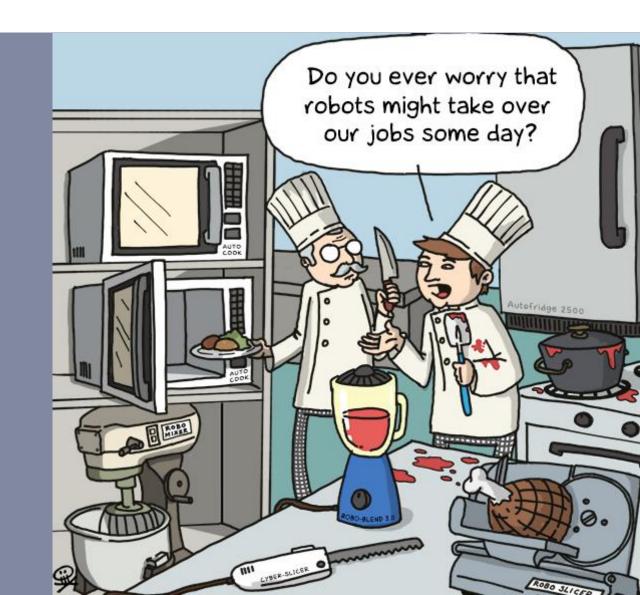
GOALS OF BASIC INCOME

- Alleviate poverty
- Provide a minimum income for those who cannot work
- Address income inequality & wage stagnation
- Help workers displaced by automation
- Simplify the transfer system
- Replace transfers with welfare traps

SHOULD WE USE BASIC INCOME?

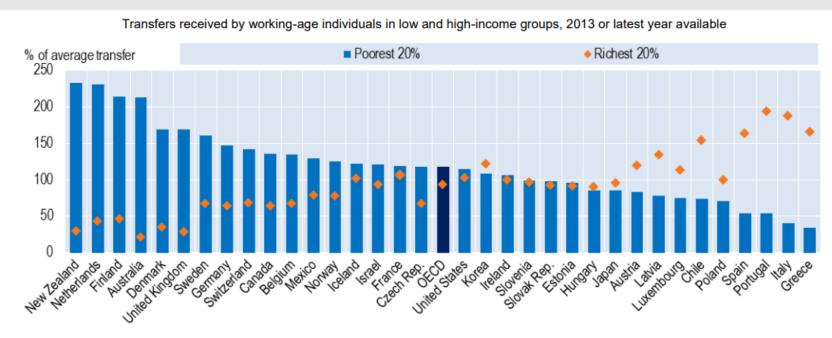
CALSAMIGLIA & FLAMAND, 2019

- Simplify the welfare system
- Lower costs of benefit provision
- Target individuals not always receiving benefits under existing systems
- Address job loss concerns related to automation



EXISTING TRANSFERS IN OECD

IMMERVOLL, 2017



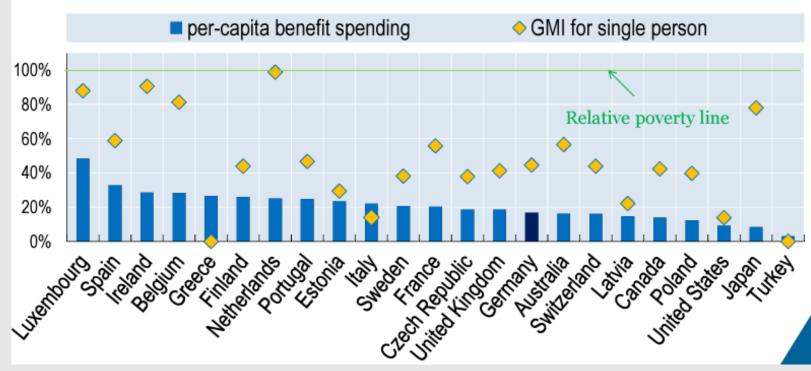
Note: Age group 18-65, 18-62 in France. Public social cash transfers at the household level, adjusted for household size. Income groups refer to disposable incomes. Additional data provided by France show that, without counting old-age and disability pensions, the bottom 20% in France receive about three times as much as the top 20%.

Source: Calculations based on the OECD Income Distribution Database.

- Analyzed the OECD Income Distribution Database
- Incomplete coverage leaves low-income groups worse off in some countries
- Not all transfers designed to redistribute from rich to poor

BI EQUIVALENT TO CURRENT SPENDING

BI amount that would be equivalent to current spending on working-age benefits 2014, compared to poverty cut-off and to current minimum-income benefit (GMI) amounts

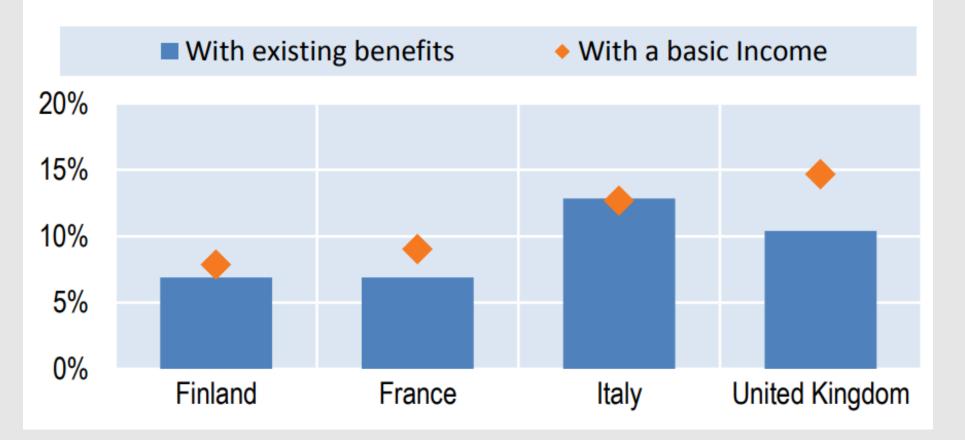


- Shows BI for working-age individuals if existing benefits were replaced
- A budget-neutral BI for individuals below retirement age requires:
 - A BI far below poverty line
 - Abolishing most existing benefits

INCREASED POVERTY RATES

IMMERVOLL, 2017

Poverty rates under existing systems, and a BI



EXISTING BENEFITS IN THE U.S.

HOYNES & ROTHSTEIN, 2019

	Cash welfare	In-work benefits (e.g.,	Disability benefits (e.g.,	Retirement (e.g., Social	Child allowance (e.g., Shaefer		
Parameters	(e.g., AFDC)	EITC)	SSI)	Security)	et al. 2018)	NIT (canonical)	UBI (canonical)
Guarantee (G)	\$7,285 per year	\$0	\$8,820 per year	\$16,392 per year	\$3,000 per year	\$5,000 per year	\$12,000 per year
Subsidy rate (S)	0%	40%	0%	0%	0%	0%	0%
Maximum transfer (<i>M</i>)	\$7,285 per year	\$5,616 per year	\$8,820 per year	\$16,392 per year	\$3,000 per year	\$5,000 per year	\$12,000 per year
Beginning of phaseout of transfer (<i>P</i>)	\$90 per month	\$18,340 per year	\$85 per month	\$0	\$0	\$0	Infinite
Tax rate in phaseout (<i>T</i>)	100%	21%	50%	0%	0%	50%	0%
Eligibility restrictions (E)	Single parents	Must be 25–64; there is only a small credit for those without children	Documented disability or age 65+	Over 62 with sufficient work history	All families with children	All families	All adults

		Total expenditures	Number of	
Program	Eligibility (E)	(billions)	recipients (millions)	
Cash welfare				
TANF	Single parent, work requirements	\$7.4	2.8	
SSI/elderly	Ages 65+	\$5.4	1.2	
SSI/children	Under age 18, blind or disabled	\$9.3	1.2	
In-kind, near-cash welfare				
SNAP	Near universal	\$63.6	42.1	
School lunch	K–12 children	\$12.3	22.0	
School breakfast	K–12 children	\$4.5	12.5	
WIC	Pregnant and postnatal women and children <5	\$5.6	7.3	
Section 8 and public housing	Universal, but rationed	\$26.9	9.4	
In-work tax credits				
EITC	Earners, ages 25–64 or with children	\$69.8	69.7	
CTC	Families with children with earned income	\$52.8	105.9	
Disability programs				
SSDI	Documented work limiting disability	\$142.7	10.4	
SSI/disability	Documented work limiting disability	\$39.6	5.9	
Social insurance				
Social Security retirement	Retirement age, with work history	\$680.2	45.5	
Social Security survivors	Survivors of deceased with work history	\$118.3	6.0	
Unemployment insurance	Work history, actively looking for work	\$29.9	5.7	
Health insurance				
Medicare	Ages 65+ or disabled	\$689	57.0	
Medicaid	Low income	\$368	82.2	
CHIP	Children	\$14.3	9.2	
Total cost				
All programs		\$2,340		
All programs, excluding health		\$1,268		
All programs, excluding health and Social Security retirement		\$588		
Potential UBIs				
Canonical	Ages 18+	\$3,025	252.1	
Phased out around median income	Ages 18+	\$1,512	126.0	
Age limited	Ages 18-64	\$2,414	201.2	

Table 3 Number of recipients and total expenditures from selected transfer programs and potential UBIs

COSTS & RECIPIENTS HOYNES & ROTHSTEIN, 2019

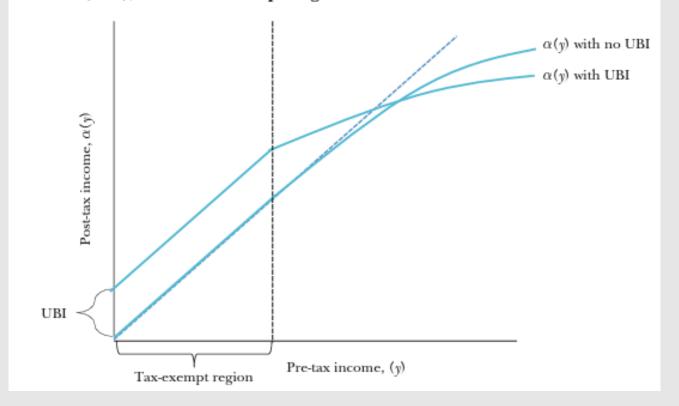
- A \$12,000 UBI (for everyone 18+) would cost more than all other US transfer programs combined
 - UBI: \$3 trillion
 - All existing: \$2.3 trillion
- Smaller proportion of UBI dollars would go to bottom of the income distribution, elderly, disabled, and families with children compared to current system

BI IN DEVELOPING COUNTRIES

HANNA & OLKEN, 2018

- A lot of activity in the "informal sector"
- Primary downside of targeted transfers is that many poor households are unintentionally excluded from benefits
- Incomes in developing countries unobserved for much of the population (especially low-incomes)
- BI would have low administrative costs because the government does not have to verify income
- Existing targeting methods deliver substantial improvements in welfare for poor people because they can transfer much more on a per-beneficiary basis

Example of Post-Tax Income Schedules With and Without a Universal Basic Income (UBI), with a Tax-Exempt Region



EFFECTS OF BI ON LABOR SUPPLY

DE PAZ-BÁÑEZ & ASENSIO-COTO, 2020

- Widely held belief that giving money to the "poor" promotes "laziness"
- Found no evidence a UBI causes a reduction in general labor supply
- Slight increase in labor supply in some cases, especially among low-income people
- Slight decreases in number of hours worked and participation in some cases, generally related to training and care
- Slight reductions in labor supply in some cases among children, elderly, and those with disabilities
- Other effects:
 - Improved working conditions
 - Increase in formal employment for lower employment
 - Changes toward better jobs and entrepreneurship

MAP OF BASIC INCOME TRIALS SAMUEL, 2020

- Few large-scale trials
- Alaska Permanent Fund since 1982
- Finland replaced minimum unemployment benefits with basic income of equal size in a two-year study

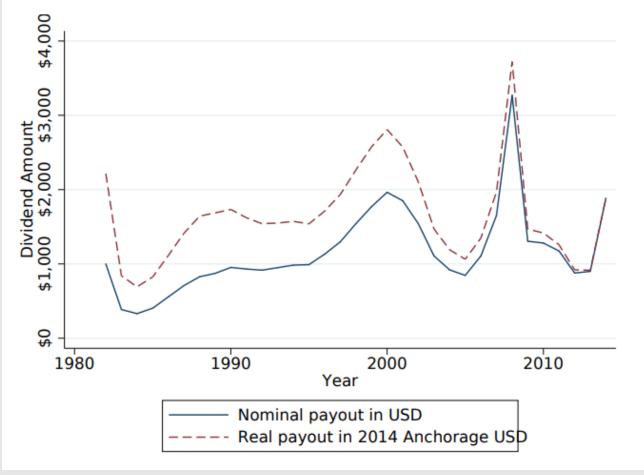
Everywhere basic income has been tried



ALASKA PERMANENT FUND DIVIDEND

JONES & MARINESCU, 2018

Figure 1: Alaska Permanent Fund Dividend: nominal and real amounts



- Compared Alaska to synthetic counterfactual
- No significant effect on employment rates, hypothetically due to increase in labor demand derived from higher consumption
- Saw a 1.8% increase in part-time employment in the overall population
- Employment decreased and parttime work increased in the tradable sector
- Effects on employment and parttime labor insignificant and almost zero for non-tradable sector

BI IN FINLAND KANGAS ET AL, 2019 | VERHO ET AL, 2022

Table 10. Full-time and part-time employment and a wish to work full-time instead of part-time

	If a wage earner, is currently in (%)		
	Test	Control	
Part-time employment	38.0	30.3	
Full-time employment	62.0	69.7	
X²		.0870	
	If working part-time, would rather work full-time (%)		
	Test	Control	
Yes	68.6	58.2	
No	31.4	41.8	
χ²		.1931	

Table 12. Self-perceived financial wellbeing of household at current level of household income

	Current level of household income (%)		
	Test	Control	
Living comfortably	11.9	7.4	
Doing OK	48.1	43.5	
Difficulty making ends meet	26.1	31.8	
Barely getting by	12.5	16.8	
Cannot say	1.4	0.6	
χ²	.0002		

- Replaced minimum existing benefits with basic income of same amount (\$631) for 2,000 people for two-years (2017-2018)
- No significant differences in employment status or ability to find employment
- Significantly fewer problems related to health, stress, and the ability to concentrate
- More confident in their own future and ability to influence societal issues
- Statistically significant difference in trust in:
 - Other people
 - Legal system
 - Politicians

BASIC INCOME

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UBIVS NEGATIVE INCOME TAX

CALSAMIGLIA & FLAMAND, 2019 | MOFFITT, 2003

UNIVERSAL BASIC INCOME

- Cash rather than in-kind
- No means test
- No work requirement
- Paid regularly
- Given to individuals rather than households
- Fully taxable
- Andrew Yang's "Freedom Dividend"

NEGATIVE INCOME TAX

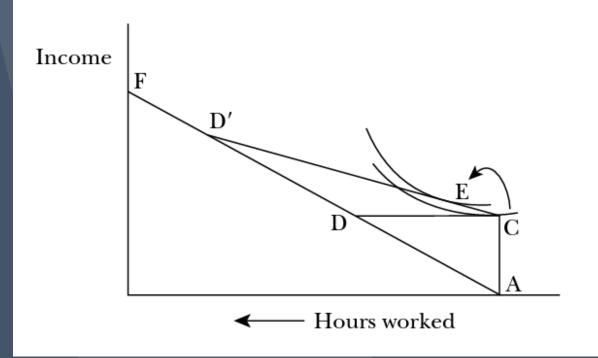
- Cash rather than in-kind
- Means-tested
- No work requirement
- Paid like tax refunds
- Phases out as income increases
- Applies to households with income under a specified threshold
- Milton Friedman proposed that all welfare programs be restructured around idea of negative income tax

NEGATIVE INCOME TAX

MOFFITT, 2003

NEGATIVE INCOME TAX

- Line AF shows how income rises with increased work hours (wage rate)
- CD shows constraint created by a welfare program with a 100% negative income tax rate
 - Working more leads to same net income so utility maximizing agents will choose <u>C or some point to the left of D</u>
- CD' shows the constraint created by a negative income tax at a lower rate
- With NIT, in this case, the agent moves from point C to point E



SUMMARY OF RESULTS

ADVANTAGES

- More people in need receive benefits
- May help to destigmatize social welfare and restore trust in governments
- Empirical studies have not shown evidence of reductions in the general labor supply

DISADVANTAGES

- Replacing existing systems with UBI could substantially reduce benefits per person to those most in need and increase poverty rates
- Some reductions in labor supply in specific sectors and among certain groups of people
- Tax increases needed for a modest UBI in most countries

CONCLUSION

- A UBI large enough to live on and without phaseout or other eligibility restrictions has never been implemented in a rich country on any large scale
- A modest UBI would be expensive
- Basic income may not be an effective antipoverty tool
- More people receive benefits but much less per beneficiary
- A small UBI does not significantly lower labor supply
- Future research should compare the effects of a UBI to **NIT, EITC**, and other systems
- The long-run and general effects have yet to be seen



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