Universal Basic Income : A Strategy to Redress Socio-economic Problems

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October, 2019

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List of Abbreviation

| Abbreviation	Definition
UBI	Universal Basic Income
OECD	Organisation for Economic Co-operation and Development
USA	United States of America
NIT	Negative Income Tax
AI	Artificial Intelligence
GMI	Guaranteed Minimum Income
BIG	Basic Minimum Income Guarantee
GDP	Gross Domestic Product
AUD	Australian Dollar

Introduction

The idea of universal basic income as an unconditional payment to all adults to meet their basic needs is not new (OECD 2017, p.1). Many scholars advocated the idea of basic income for centuries but there is no example of countrywide application of the Universal Basic Income. (The Economist 2016). However, some groups of people in OECD countries are already being paid without income or activity tests (OECD 2017, p.1). The family or child benefits are


Source: www.unite.ai

kinds of universal payments in many OECD countries (OECD 2017). According to an OECD report (2017, p18), on pensions, half of the OECD countries provide universal old-age pensions to their aging citizens. However, there is a renewed interest in the idea of universal basic income and it is finding support from people with a variety of ideological inclinations. The policy institutions such as the Brooking Institution (2016), Mckinsey Global Institute (2016) newspapers such as The Wall Street Journal (2016) and The Economist (2016) are leading the debate on Universal basic income. Many countries such as Finland, Holland, and Canada initiated trials to assess the impact of basic income on the wellbeing of basic income recipients (Matthews2016). Similarly, the tech companies in the Silicon Valley in the USA are also investing money on the trials of basic income in Oakland California (The Guardian 2016). The renewed interest in the policy debate in the viability of UBI as a social policy instrument is a consequence of the global economic crises of 2008 which resulted in the economic recession, and large-scale unemployment in many countries (The Economist 2016). Similarly, the wages are of workers are not increasing steadily to match with the increase in the cost of living for long (ibid). Secondly, the rise of automation and Artificial Intelligence (AI) are feared to bring radical transformation in the labour market to permanently reduce the demand for labour causing mass employment (Rotman 2013).
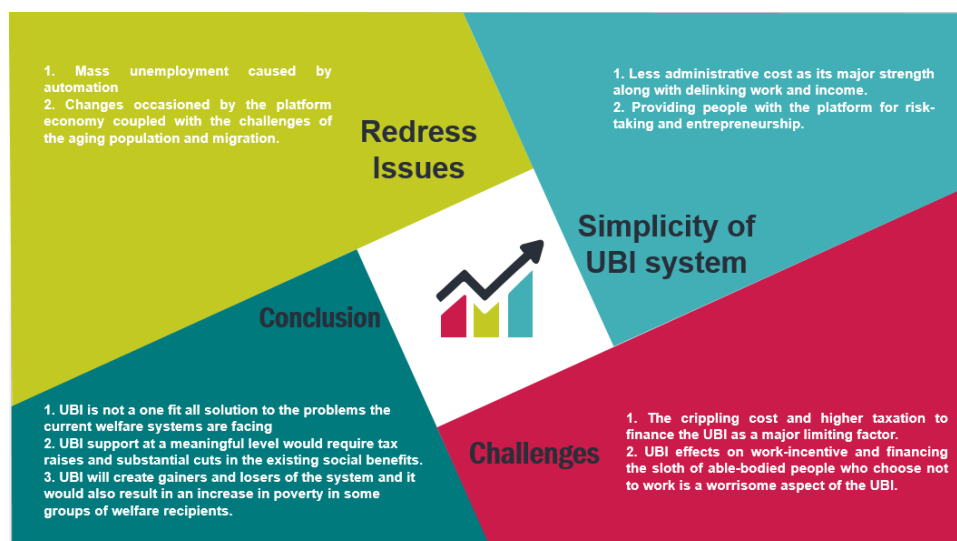
This paper examines the potential of universal basic income (UBI) to redress issues such as mass unemployment caused by automation and changes occasioned by the platform economy which has blurred the distinction between the employees and self-employed coupled with the challenges of the aging population and migration. The paper highlights the simplicity of the UBI system involving less administrative cost as its major strength along with delinking work and income, providing people with the platform for risk-taking and entrepreneurship. The paper also articulates the crippling cost and higher taxation to finance the UBI as a major problem. Similarly, its effects on work incentives and financing the sloth of able-bodied people who choose not to work is a worrisome aspect of the UBI. The paper concludes that the universal basic income in combination with guaranteed minimum income, negative income tax, and demogrants have the potential to deal with emerging challenges such as unemployment, poverty, and inequality but the idea of the UBI does not seem realistic and impractical.
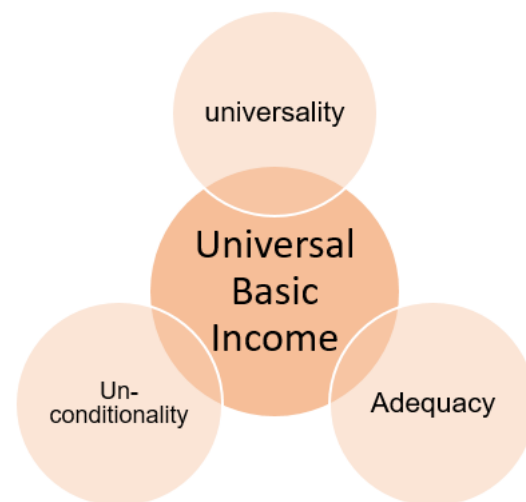
Universal basic income (UBI) is an unconditional payment to all adults to meet their basic needs (Arthur 2016, p.3). The UBI schemes are known by different names including basic income, guaranteed minimum income (BIGN 2018). The payments under a UBI scheme are made with the income and activity test (Productivity Commission). The basic features of the UBI schemes are universality, un-conditionality, and adequacy as UBI is provided to all adults without consideration of their needs and without attaching any strings of behavioural conditions. Similarly, the UBI is set at a level that it can protect citizens against needs (Wright 2006, p.79).

Negative Income Tax

Negative Income Tax (NIT) is a system where the people whose earning falls below the tax threshold are paid support payment instead of paying taxes (Allen 2002). The negative tax is like a transfer and it is the mirror image of a progressive taxation system where the rich pay increasingly higher taxes on the income (Braden 2017). The purpose of NIT is to provide money to individuals in poverty to lift them to a guaranteed minimum income floor. The NIT is targeted and conditional, unlike the UBI which is more universal and unconditional in approach (ibid). Friedman (1975, p.200) argues that the NIT provides income support in the most direct way possible.

Demogrants are non-contributory benefits that are extended to the specified section of the population. The payments made under Demogrants are income test free but are targeted to a cross-section of the population. For example, all the people over sixty-five years of age are provided income support known as New Zealand Superannuation.

Impact of Artificial Intelligence on jobs

There is no one reason for renewed interest and study of the UBI. All these welfare schemes such as the universal basic income (UBI), negative income Tax, basic minimum income, or basic minimum income guarantee (BIG), demogrants are intended to address issues of unemployment and subsequent poverty and inequality. However, special interest in the UBI is owing to the concern of the issue of mass unemployment and joblessness occasioned by automation and changes in the conditions of work and subsequent confusion in the definition of employee and the self-employed due to the evolution of platform economy (Arthur 2016, p.13). The labour system in the developed economies is designed around the labour market where the workforce is supported by the income earned out of paid jobs. However, the welfare system props individuals during periods of joblessness, sickness, or disability. The welfare system in the developed countries depends upon full-time employment of the labour force particularly those systems, relying on contributory social insurance systems (Arthur 2016, p.14). Frey and Osborne (2013) highlight the impact of

Source: cmte.ieee.org

automation and Artificial Intelligence on the job market and point out that around 47 percent of jobs in the USA are at risk owing to automation in the next decade. Similarly, a study conducted by Durrant-Whyte et al (2015) use occupational data on the model of Frey and Osborne and come up with similar findings. The study highlights that 40 percent of jobs in Australia may be replaced by computers in the short period of fifteen years and there is a possibility of elimination of the role of further 18.4 percent workers due to technology (ibid. However, it is argued that the quantum of digitalization and automation after the introduction of artificial intelligence on the job market would be substantial to disrupt it in a big way (Stiglitz & Korinek (2017, p.2).

Technology Replacing Traditonal ways

The UBI is also advocated as means of countering the effects of work relations changes caused by the platform or gig economy. Technology is transforming the labour market and work conditions in a big way. The technology is replacing the traditional ways of dealing with clients requiring proximity of customers with workers to deliver services (Bradlow 2015, p.43). The gig economy has the potential to turn secure work into insecure work by blurring the distinction between the

Source: bitmascot.com

employee and the self-employed. The gig economy instead of creating a full-time job with all the social benefits such as paid sick leave, maternity pay will produce independent contractors

(Keynes 2015). Digital technology has made it possible for companies to outsource the hiring of workmen through digital platforms such as Uber, Deliveroo, and Airtasker. These digital platforms hire the workers on a task-to-task basis and the workers lack job security and work entitlements as are generally attached with regular paid work in the developed countries (Productivity Commission P.78).

Overseas Workers

The universal basic income is important from large-scale migration and the changing nature of work. The population is growing largely in developing countries and the relative population of different countries is shifting owing to migration (McKenzie 2015, p.88). For example, in Australia, 50 percent growth in population on account of overseas migration (Lewis 2015, p.122). The Australian Council of Trade Union sectary quote senate report 2016 stating that there are 1.4 million visa holders with the right to work in Australia which equals 10% of the total labour force (ABC 2018). As we have discussed earlier, the technological changes are not only changing the way we work but also the very nature of work which in the words of Gratton (2015, p.33) is hallowing the work. The low-skilled jobs which require physical involvement cannot be easily sourced. Therefore, low-skilled and low-paid jobs remain available to the recent arrivals (migrants) to the labour force. Therefore, the wages of the migrants remain depressed (ibid). The migrants have limited access to social protection available to the citizens of the country. The UBI model envisages across the board coverage of the resident including residents.

Financial Impact of Universal Basic Income (UBI)

The UBI is back on the agenda mainstream policy discourse on account of dealing with the complexity and incoherence of the current welfare regime which creates a disincentive for work. The simplicity of the UBI system is advocated as the main strength of the system. The under-trial and proposed designs of the UBI system do not have overlapping income tests and complex eligibility criteria (Arthur 2016, p.3). The UBI is an efficient system in comparison to the current welfare paradigm as it skips bureaucratic delays and provides people with cash without cumbersome income tests (Conan 2016). OECD report (2017) regarding Finish experiment on basic income that The UBI trial is launched to assess whether social security system can be simplified by cutting overlapping social assistance programs and reducing the role of bureaucracy. The current welfare system in Australia is substantially complex in terms of the number of income support payments and the difference between payments levels with the categories. For example, the Australian welfare system comprises about twenty welfare payments and fifty-five supplementary payments. All these payments have their eligibility assets test criterion (Arthur 2014). The interaction between the tax system and social security benefits is so complex in Australia that working out the net impact of the social security system requires a high degree of expertise and complex soft wares (Arthur 2017). According to the Reference Group report on Welfare Reforms (2015, p.9), the changes in the Australian welfare system over a while have led to unintended inconsistencies and complexities making it look like a 'patchwork quilt' (p.10).

The second strength of the UBI system is that it envisages incentives for work unlike the current welfare system in OECD countries. The UBI payments aer not conditional on work or activity and the UBI payments are made on top of what an individuals earns creates a strong incentive for work. Unline current welfare systems in OECD countries which create a disincentive for work called welfare trap. According to an OECD report (2017), the taxation and transfers systems in the OECD countries create a welfare trap: the individuals on a part-time job will be worse off than a person who is on unemployment benefits. Similarly, the reference group report on Welfare Reforms (2015, p.10), also highlights that the complexity of the Australian welfare welfare system creates a disincentive for work for some people (p.9). It also articulates that the complexity and incoherence of the welfare system leave the receipts of welfare payments unsure of the incentive for work and the people with the similar condition of life and similar needs are paid different incentives on a different scale. These arbitrary differences, drastically reduce the incentive for work, and the individuals instead of training themselves for getting better-paid jobs try to qualify for higher social security payments (pp.9-10)

Third, the UBI which satisfies basic needs sets the stage for risk-taking and entrepreneurship. Santens (2016) argues that the UBI satisfying basic needs eliminates the fear of hunger and homelessness and opens the doors for risk-taking and enterprise. In contrast, traditional welfare systems link activity tests with welfare payments. Therefore, the welfare receipts remain averse to taking risks (ibid).

Universal Basic Income and Human Basic Need

The adequacy of payments is the fundamental pillar of the UBI design that the welfare transfers are set at a level that can satisfy basic human needs. But the cost of the UBI to finance the UBI is a cause of concern. The cost of the UBI varies with the change in the design and coverage. The OECD report (2017, p.3), articulates that the level of payments set at the current Guaranteed Minimum Income (GMI) levels in some of the countries can result in savings. For example, funding the UBI at the GMI level where existing age benefits are replaced with the UBI in Finland and Italy requires ending exemption of taxation on zero-rate tax band and moving downward existing income tax threshold will free up resources to fund a bit generous UBI (ibid). In France, the GMI at the budget-neutral level will require a reduction of the UBI slightly below GMI levels (ibid). The financing of the UBI at a meaningful level would require a substantial increase in the tax rates. In this scenario, the tax burden on most people will increase and the tax to GDP ratio will further increase in the OECD countries (ibid). However, the UBI set at a level to protect people against poverty would require staggering amounts of money. For example, Prof White quoted in the Sydney Morning Herald (2016) argues that in Australia the UBI to have some meaningful impact, the UBI would have to be set at the level of age pension which amounts to A\$20 thousand per year and it would cost \$360 billion to cover 18 million adult population of Australia. The Government will raise an extra \$ 210 a year in taxes to fund the UBI if all the social welfare payments are added to the UBI. He highlights that to raise \$210 in taxes, the income tax for the top bracket will have to be raised around 70-80% (ibid).

Design of Universal Basic Income

The design of UBI is very simple as it envisages transferring money to all adults without attaching any conditionalities. But this simple design does not have similar effects on all social welfare beneficiaries as the existing social benefits system in the OECD countries is very complex and it produces different effects in different circumstances. Hence replacement of the current welfare system with the universal flat-rate payment will result in gains and losses for different groups of welfare recipients (OECD 2017, p.5). For example, an OECD study suggests that early retirees and the low-income households in Finland, France, Italy, and United Kingdom that are receiving social welfare benefits, will lose substantially and would be worse of under a modest UBI set at the GMI level. Similarly, the study points out that setting on the UBI at the GMI level while replacing other cash benefits will have a marked impact in France especially on the unemployed and early retirees (ibid). On the other hand, the effect of the UBI on those individuals who do not qualify for any social benefit will be positive subject to the condition that the amount of the UBI exceeds their tax liabilities. For example, the household in the middle-income bracket in France, the United Kingdom, and to some extent in Finland will gain from the UBI as the people in the middle-income bracket do not qualify for income support under the means-tested welfare system. These facts stated above show that the UBI will have positive effects on the individuals who are not receiving any welfare benefits or on those who receive very small amounts in welfare assistance but the beneficiaries receiving generous welfare support will be losers and they will fall below the poverty line.

Univesal Basic Income and Economic Stability

Secondly, the UBI is argued to be economically unsustainable as it would substantially reduce economic output as it promotes sloth and laziness and encourages the workers to withdraw from the labour market. The UBI permanently severs the linkage between work and income Arthur 2016, p16). The Swiss Government's intake on the introduction of the UBI before the referendum was that the UBI would reduce economic output and weaken the economy as the low earning workers would opt out of the labour market (Gesley 2016).

The UBI offers a definitive solution to the current and emerging challenges such as mass unemployment caused on account of the introduction of artificial intelligence and robotics depending upon whether the disruption caused in the labour market is transitional or permanent. (Cowan 2017, p.6). He argues that the main objective of existing unemployment benefits in Australia is to assist the worker in the short transitional period of unemployment. On the other, the UBI aims at permanent redistribution of resources due to complete change in the pattern of work (ibid). To show that the UBI offers a solution to mass unemployment depends upon whether automation will cause mass disruption in the labour market, the labour force remains unemployed for an extended period and fresh entrants in the labour have fewer options for work. However, there is disagreement amongst the experts regarding the size and quantum of the disruption that will be caused by automation in the labour market. In the OECD report, Arntz et al (2016, p.4) take a task-based approach to work out the impact of digitalization on the job market in the 21 OECD countries and they average the risk of replacement of computers with human beings at 9 percent. They argue that unemployment

estimates on account of automation and Artificial Intelligence (AI) at the level of 47 percent as worked out by Frey and Osborne (2013) are owing to the methodological issues (ibid). There is little evidence that unemployment has been occasioned by automation and digitalization and Cowan (2017, p.7) notes from the unemployment statistics of the last forty years that there is no evidence of an increase in unemployment in the labour market. However, he observes changes in the pattern of work from full-time employment to part-time work.

Taken together, the recent surge in the interest in the UBI and its support from widely different parts of the ideological spectrum owes to the concern regarding the rise of machines due to advancement in artificial intelligence and subsequent mass unemployment. The UBI is apparently a simple idea but its effects on the social welfare beneficiaries may not be simple as the existing welfare system is the highly complex and random introduction of the UBI will produce gainers and losers from the system and it may increase poverty in some groups of beneficiaries. While the UBI may be a key component of the welfare regime in the future but it will require more evidence to show that automation and robotics will create unprecedented unemployment to convince the masses to adopt this system of welfare. Similarly, it also needs to be demonstrated that it is more efficient and effective in the eradication of poverty and inequality than the meant-tested system of welfare.

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