

# Basic Income: Economic impacts and Desirability? An overview.

Bruno Van der Linden

Université catholique de Louvain

March 17, 2021.

# Outline

- 1 Definition
- 2 Evaluating Basic Income Proposals
- 3 Impacts on Labor Supply
- 4 Beyond Micro-economic Effects
- 5 Basic Income and Redistribution
- 6 Conclusion

# Definition

A basic income is

- **An income paid on a regular basis...**  
→ Paid upfront; Not a benefit in kind (food stamp, free public transport,...) - individual freedom about the use;
- **By a public authority to each individual who is a “full member” of society** (beyond, possibly, a certain age)...  
→ Irrespective of “family composition”; empowering some groups, like housewives; Who is a “full member”?
- **...It is not means-tested...**  
→ Means-testing is intrusive (issue of non take-up); *Seems* to enrich the poor and the rich;
- **...Recipients do not need to be looking for a [formal] job**  
>< The prevalent Work Ethic; Changes bargaining power; A subsidy to career breakers, strikers, drug dealers, and whatnot.

## Ethical foundation

Three major liberal-egalitarian political philosophers do not agree

- Van Parijs (proponent);
- Rawls (not in favor);
- Sen (hard to know what are his exact views on this matter)

Yet, an in-depth ethical foundation exists.

Underlying assumption:

Individuals are endowed with the capacity to take the best decisions for themselves ... Always?

# Too many different BI proposals

“Are you in favor or against a BI?”

= **meaningless** unless the proposal is clarified:

- 1 What's the level of the proposed BI?
- 2 Is it a complement or a substitute to social security allowances (in countries where they exist)?
- 3 Accompanied by a deregulation of the labor market or not?
- 4 Who is paying for the BI? And how?
- 5 (...)

→ Impact on “well-being” and inequalities and the induced behavioral effects depend a lot of the answer to these questions.

# Evaluation framework

What should be done to evaluate whether a specific BI proposal is welcome or not?

- 1 Without ignoring its immediate impact (on poverty, inequality,...), one needs to take into account the dynamics of adjustments (of all economic agents);
- 2 A clear (and ethically founded) Welfare criterion for the whole society;
- 3 As no unique suitable evaluation tool exists, a range of tools need to be used/developed;  
Ultimately, a micro analysis, while very useful, is strongly insufficient.

## Some pieces of evaluation:

- 1 Adjustments of labor supply;
- 2 Beyond micro effects, the macro perspective;
- 3 Optimal redistributive taxation.

# 1. Labor supply

[Formal] Labor supply decisions =

- a) Participation to the labor market or not;
- b) Among participants, the number of hours worked.

Note: I here omit effects of BI on the “quality” of labor supply, in particular via educational choices along the life-cycle.

The introduction of a BI changes [formal] labor supply incentives in complex ways.

The next slide is an illustration based on a specific example:

- There is a Means-Tested Minimum Income Guarantee whose level is  $G \text{ €}$
- A BI whose level is also  $G \text{ €}$ .
- Taxes on earnings are linear and higher in the case of the BI.



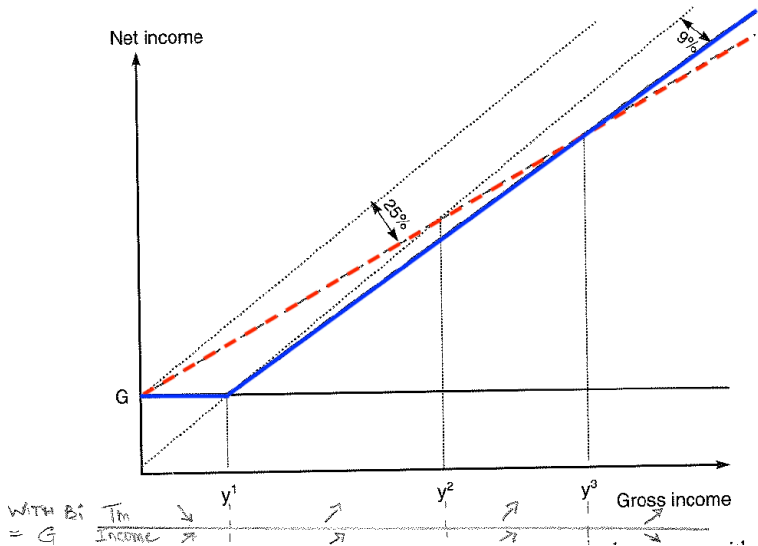


Figure: Means-tested Min Income Guarantee vs BI. Source: Van Parijs and Vanderborght (2017)

## Empirical [micro] evidence on Labor Supply Effects

- What can be learned from *short-lived* field experiments is limited.
- Same conclusion about the behavior of lottery winners.
- In “developing countries”, Banerjee, Hanna, Kreindler and Olken (2017) find “no systematic evidence that cash transfer programs discourage work”. Hazardous transposition to richer countries?
- US and Canadian evidence:  
*“Many studies find no statistically significant effect of an unconditional cash transfer on the probability of working. In the studies that do find an effect on labor supply, the effect is small: a 10% income increase induced by an unconditional cash transfer decreases labor supply by about 1%.” Marinescu (2018)*

# Personal conjectures about labor supply effects

If a small country like Belgium implements a BI

- A BI is subsidizing a very wide range of “activities” out of the formal labor market.  
Where, like in Belgium, tax evasion and undeclared productive activities are widespread, a (non negligible) BI level would erode the tax base more.  
Given the State budget constraint, detrimental effects pointing to the need of some restrictions to the eligible “activities”:
  - “Participation Income”: Atkinson (1995a), Atkinson (1996).
  - “Active Citizen’s income”: Van der Linden (2004).
 ... Drawback: Monitoring of behavior + sanctions are needed.
- Labor supply reacts more when international mobility is relatively easy (in particular, emigration of high-skilled workers).  
See e.g. Lehmann, Simula and Trannoy, 2014.
- Definition of “Full member” of society  $\Rightarrow$  immigration?

## 2. Beyond micro-economic effects

Little is known about the long-run macro impact of a BI.

One long-lasting and large scale experiment is the Alaska Permanent Fund Dividend (financed thanks to oil reserve royalties).

*“Since 1982, all Alaskan residents of any age are entitled to a yearly dividend payment from the Alaska Permanent Fund; in recent years, the payment is about \$2,000 per person. The dividend only requires that a recipient have resided in Alaska for at least a year.” (Jones and Marinescu, 2018)*

Constructing the counterfactual = a difficult task here.  
(Synthetic control method combining elements of difference-in-differences and matching estimators)

Jones and Marinescu (2018) conclude:

*“In our preferred specification, we do not detect any effect of the Alaska Permanent Fund dividend on employment, i.e. the extensive margin. We do, however, estimate a positive increase of 1.8 percentage points, or 17 percent, in the share of all Alaskans who work in part-time jobs.”*

Further investigation reveals:

- “Reductions in the employment rate and increases in the part-time rate only among the **tradable** sectors”;
- “The **non-tradable** sector exhibits essentially no impact”.

“This result is consistent with an increase in consumption of non-tradable goods contributing to a positive labor demand effect, offsetting any negative labor supply effects of the cash transfer.”

The experiment in Alaska remains quite specific!

## Other effects beyond labor-supply adjustments

- If, as Jones and Marinescu (2018)'s result suggest, a BI induces some reallocation of economic activity, the needed reallocation of workers can be complicate.
- Where wages are negotiated, a BI likely changes bargaining outcomes through at least two channels:
  - ① Fall-back position of workers in case of a disagreement is changed;
  - ② The relationship between net wages and bargained gross wages is changed (Van der Linden, 2002).
- Adjustments in taxes to finance the BI do not only affect labor supply but also potentially other decisions like investments.
- (...)

### 3. Optimal Redistribution

A BI is a particular ingredient of the tax-transfer schedule.

⇒ Income Redistribution is the central issue.

A long literature studies the **optimal** design of taxes and transfers (Ramsey, Mirrlees, Atkinson, Saez,...).

The question: How to redistribute income taking into account the induced effects of redistribution under asymmetric information?

Question raised now: Is BI part of this optimum?

a) “Optimal” on the basis of what criterion?

Here, I limit the answer to “Welfarist approaches”, i.e. the criterion is a combination of individual utility levels. Encompasses at the limit:

- A MaxiMin criterion: Elevate as much as possible the lowest utility level in society.
- Simple sum of utility levels.

Very important aspect: Which weight is given to the “working poors” versus the jobless people (see e.g. Saez, 2002).

*b) Under which type of taxation?*

- ◇ Taxes on earnings here only.
- ◇ A constrained tax schedule? No (as opposed to the flat tax assumption made by Atkinson, 1995, Islam and Colombino, 2018).

*c) What is the underlying functioning of the labor market?*

Instead of the usual pure competition approach, I consider a framework allowing for involuntary unemployment (search and matching frictions) and endogenous wages.



# Main contenders

A simplified view

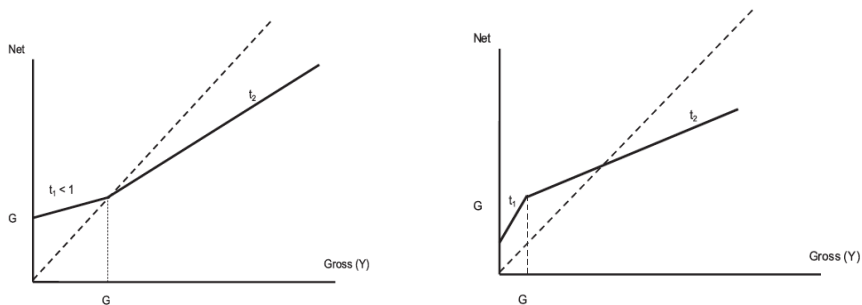


Figure: NIT-BI vs EITC

# Main message

Lehmann, Parmentier and Van der Linden (2011)

Simulations conducted for a (simplified calibrated) U.S. economy:

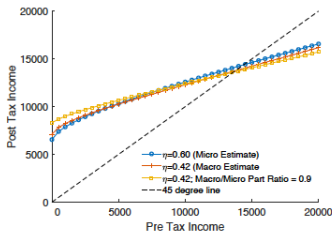
- 1 Under the MaxiMin criterion, where the utility level of the jobless is set at the highest possible level (taking several induced effects into account),  
The optimal profile is close to a basic income - negative income tax proposal (they can hardly be distinguished here).
- 2 When the well-being of workers, in particular the low-paid ones, is also valued,  
The optimal income level of the jobless people is lower than under the MaxiMin and “in-work benefits” are introduced.

# Main message

Computations by Kroft, Kucko, Lehmann and Schmieder (2020) for the US

Compared to the previous paper,

- ◇ The theoretical framework is enriched by adding more margins of reactions to the tax-benefit transfer.
- ◇ The numerical exercise is much more elaborated.

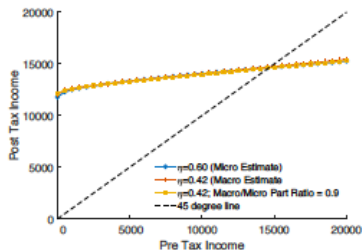


(a) Post vs. Pre-tax income,  $v = 0.5$

Figure: Post-Tax income - Moderate society's preference for redistribution

# Main message

Computations by Kroft, Kucko, Lehmann and Schmieder (2020) for the US



(d) High redistributive taste parameter:  $\nu = 4$

Figure: Post-Tax income - High society's preference for redistribution

Message: “The optimal tax more closely resembles a negative income tax than an earned income tax credit relative to the case where unemployment and wage responses are ignored.”

To conclude...

- 1 Many aspects are omitted here.
- 2 BI and the current emergencies.

# 1. Omitted issues (At least some of them...)

- 1 If A.I. and other technical innovations render more and more skills obsolete and  
If answers to this tendency turn out to be ineffective,  
Then income inequalities should spontaneously rise.  
The debate will less be between BI-NIT and EITC than  
Between BI-NIT and Conditional Cash Transfers... but “conditional on what?”
- 2 More dimensions should be taken into account. E.g.:  
“The evidence shows that an unconditional cash transfer can improve health and educational outcomes, and decrease criminality and drug & alcohol use, especially among the most disadvantaged youths.” (Marinescu, 2018)  
In addition: BI empowers e.g. women; values non-market work; could stimulate innovations...

## 2. Covid-19, environmental emergency and BI

Some effects of the Covid-19 outbreak inside rich countries:

- Large transfers from the public sector to the households and the firms → ↗ of public debt but accommodative monetary policies;
- The need to invest more in public health systems is patent;
- Inequalities on the rise: some groups like manual workers or homeless people are more affected by the pandemic.

How do these outcomes affect the desirability/likelihood of a BI?

- A BI needs to be self-financed. How? (i) A BI (partly) replaces pre-existing allowances and (ii) Through higher taxes.
- Increased competition between various uses of tax receipts is here to stay = bad news for a BI.
- A BI could however be a response to the rise in inequalities.

The urgent need to use natural resources (broader than energy) in a more parsimonious way will affect negatively our collective capacity to generate taxable income and wealth = bad news for a BI (Rapid technical change has a countervailing effect but is also natural resource-intensive).

Among other things, taxing greenhouse gases (GHG) and more generally activities generating environmental externalities (“green taxation”) is needed to spur the environmental transition.

- ◇ Some groups (especially at the bottom of the income distribution) have less room to adjust  $\Rightarrow$  green taxation is regressive.
- ◇ The distribution of wage rates will also be affected by green taxation. (See Aubert and Chiroleu-Assouline, 2019)
- ◇ Green taxation will generate additional public resources.





How will they be recycled?

$\rightarrow$  To reduce public debt?




$\rightarrow$  To compensate the losers of green taxation? Is BI the most efficient way to compensate them?






# References I

-  Atkinson, A. (1995a) Beveridge, the national minimum and its future in a European context.  
In A. Atkinson, editor, *Incomes and the Welfare State*. Cambridge University Press, Cambridge.
-  Atkinson, A. (1995b) *Public economics in action : The basic income/flat tax proposal*.  
Oxford University Press, Oxford.
-  Atkinson, A. (1996) “The case for a participation income”.  
*The Political Quarterly*, 67:67–70.
-  Aubert, D. and M. Chiroleu-Assouline (2019) “Environmental tax reform and income distribution with imperfect heterogeneous labour markets”.  
*European Economic Review*, 116:60–82.




## References II

-  Banerjee, A., R. Hanna, G. Kreindler and B. Olken (2017) “Debunking the stereotype of the lazy welfare recipient: Evidence from cash transfer programs worldwide”.  
*World Bank Research Observer*, 32(2):155–184.
-  Islam, N. and U. Colombino (2018) “The case for NIT+T in Europe. an empirical optimal taxation exercise”.  
*Economic Modelling*, 75:38–69.
-  Jones, D. and I. Marinescu (2018) “The labor market impacts of universal and permanent cash transfers: Evidence from the alaska permanent fund”.  
NBER Working Papers 24312, National Bureau of Economic Research.



## References III

-  Kroft, K., K. Kucko, E. Lehmann and J. Schmieder (2020) “Optimal income taxation with unemployment and wage responses: A sufficient statistics approach”.  
*American Economic Journal: Economic Policy*, 12(1):254–292.
-  Lehmann, E., A. Parmentier and B. Van der Linden (2011) “Optimal income taxation with endogenous participation and search unemployment”.  
*Journal of Public Economics*, 95(1523–1537).
-  Lehmann, E., L. Simula and A. Trannoy (2014) “Tax me if you can! optimal nonlinear income tax between competing governments”.  
*The Quarterly Journal of Economics*, 129(4):1995–2030.

## References IV

-  Marinescu, I. (2018) “No strings attached: The behavioral effects of U.S. unconditional cash transfer programs”. NBER Working Papers 24337, NBER.
-  Saez, E. (2002) “Optimal income transfer programs: Intensive versus extensive labor supply responses”. *Quarterly Journal of Economics*, 118:1039–1075.
-  Van der Linden, B. (2002) “Is basic income a cure for unemployment in unionized economies? a general equilibrium analysis”. *Annales d’Economie et de Statistique*, 66:81–105.

## References V

-  Van der Linden, B. (2004) “Active citizen’s income, unconditional income and participation under imperfect competition : A welfare analysis”.  
*Oxford Economic Papers*, 56:98–117.
-  Van Parijs, P. and Y. Vanderborght (2017) *Basic income: A radical proposal for a free society and a sane economy*.  
Harvard University Press.