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Global perspectives on universal basic income

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September 2021

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Content

Introduction

Over the past 18 months, governments around the world have responded to the COVID-19 pandemic with extraordinary policy support measures. Fiscal taps were opened to provide generous support to households and businesses with the aim of weathering the storm of uncertainty. Job losses and commercial insolvencies have been averted, or at the very least deferred, through a range of policies such as furlough schemes, tax incentives and enhanced welfare benefits. Monetary policy – already at negative or zero interest rates in many advanced economies – created an ample flow of liquidity for all.

The proverbial fly in the ointment is the difficultly in withdrawing measures that were intended as a temporary stimulus. Economic history is rich with examples of policy interventions well past their expiry date. Not only can this atrophy be a hindrance to improving service delivery and outcomes, but the cost to taxpayers diverts funding away from other policy objectives. In time, this can result in a myriad of inefficiencies that widen both social and economic inequalities.

As policymakers initiate their roadmaps to recovery, discussions surrounding the health and sustainability of public finances will come to the fore. There is an urgency to ensure value for money following what has already been more than a decade of stagnation and subpar productivity following the great financial crisis of 2007 and 2008. Improving the efficiency of government operations while levelling the post-pandemic field for those most negatively affected – the young, the poor and ethnic minorities – should rightfully be high priorities.

Identifying who to help, through which public services and when, has seldom been a straightforward task in most democratically elected, free-market societies. Competing social, economic and political pressures are often too great, resulting in outcomes that can amplify inequalities and reduce life chances.

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Introduction

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The concept of universal basic income (UBI) is a long-standing one and has been met by a range of views on its economy, efficiency, effectiveness and equity. Given the sizeable negative shock of COVID-19, might current circumstances allow for UBI to become more mainstream? If not now, when?

In this report, we outline the risks and other key variables that policymakers will need to consider. Importantly, we reflect on the potential impacts that a policy such as UBI may have on public finances and how these might be addressed. As the evidence base is limited, our intent is not to advocate a policy stance but rather to open a discussion based on global, shared experiences.

Background

Cash transfers to households are common in many countries. Governments pay pensions to the elderly, unemployment benefits to those who lose their jobs and child benefits to families. Most of these programmes are means-tested, meaning that individual or family eligibility is based on an income or asset criteria. Consequently, policymakers are charged with determining the recipients of public assistance schemes and then policing those in the system to make sure advantage is not being taken. Administrative capacity, high information and administrative costs, poor performance of targeting mechanisms and social stigma can keep means-tested programmes from reaching the intended recipients.

Some argue that implementing a universal basic income (UBI) programme by simply trusting everyone with a basic income each month could solve many of these issues.[1] UBI is a regular cash payment every individual receives, without reference to income, wealth or any preconditions. Payment amounts may vary according to demographic characteristics such as age.

In principle, UBI programmes could save administrative costs and increase the transparency of transfer systems, making them less subject to administrative discretion and corruption. At the same time, such programmes can promote individual empowerment by allowing freedom of spending. Advocates also tout UBI's usefulness as a strategic instrument to support structural reforms such as the removal of inefficient programmes like energy subsidies.[2] It can improve efficiency by avoiding a sharp withdrawal of benefits as earned income increases, a common problem in many means-tested programmes, which tends to discourage labour market participation.

The main arguments against UBI can be categorised into four key areas: the negative effect on the workforce, the misuse of income, the inability to pay for it, and the resulting increase in prices. This report focuses on the financing aspects of the arguments.

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1 The administrative efficiency of basic income (Policy & Politics vol 39, 2011).

2 Universal basic income in developing countries: issues, options, and illustration for India (International Monetary Fund, 2018).

Financing strategies

The devastating socioeconomic effects of the COVID-19 pandemic are likely to persist. The World Bank predicts millions of people will enter poverty, with global poverty increasing for the first time in 20 years.[3] This has renewed interest in the idea of basic income.

In practice, UBI is relatively expensive to deliver, as its coverage is, by design, meant to be wider than targeted or otherwise means-tested programmes. Additionally, there may be efficiency issues that damage productivity, harming work ethics and diverting scarce resources from other priorities such as health, education and investment. Therefore, identifying appropriate savings to finance the 'net costs' is a priority task in the planning and design of UBIs. While there are multiple financing options available, some of the most cited approaches are highlighted in Table 1.

Table 1: Financing options for UBIs

Financing methods	Description	Example
Green taxes	Excises on fuel products or a carbon tax.	Proposed for the US.[4]
Income tax reform	Flat tax rate or value-added tax (VAT); higher marginal tax rates for high earners.	Proposal to introduce a flat rate tax of 45% in the UK.[5]
Other taxes	Land and digital services tax	Proposed for South Korea.[6]
Borrow or use budgeting surplus	Replace parts of the benefit schemes that could generate savings to fund UBI. The government could also set aside a budget to cover part of the additional costs not covered through savings.	Implemented in Finland as a pilot (refer to case study).
Redistribution of natural resources revenue	Distribute revenues from selling natural resources via returns from investment funds.	Implemented in Alaska (refer to case study).
Rebalance fiscal policies	Reductions in the range of subsidies like fuel products, electricity, water consumption or food.	Implemented in Iran (refer to case study). Particularly applicable to resource-rich countries in the Middle East and North Africa.

3 The luxury of lockdown (European Association of Development Research and Training Institutes, 2021).
4 The freedom dividend defined (Andrew Yang, 2020).
5 Is funding a large universal basic income feasible? A quantitative analysis of UBI with endogenous labour supply (LSE Public Policy Review, 2020).
6 Might the pandemic pave the way for a universal basic income? (The Economist, 2021).

Many of the proposed financing approaches – including the elimination of tax avoidance by multinational companies, generating administrative savings and a drive against waste, diverting funds from quantitative easing or relying on donations (whether from international organisations or philanthropists) – are not considered practical or sustainable. Compared to the net costs of delivering UBI, these strategies can be relatively insignificant. For instance, the Swiss proposal of distributing CHF2,500 (£2,100) a month to each citizen would amount to roughly a quarter of GDP.

Meanwhile, the 2020 presidential candidate Andrew Yang had proposed US$1,000 a month for every adult in the US. Estimates suggest this would have cost US$2.8tn each year, or 10% of GDP.[7] This substantial cost would have been financed by:

- shrinking the size of other social programmes
- imposing 10% VAT on businesses
- ending the cap on Social Security payroll taxes
- putting in place a tax on carbon emissions.[8]

However, an analysis by the Tax Foundation concluded that Yang's revenue-generating ideas would only cover about half their total impact on the Treasury.[9]

7 Does Andrew Yang's "freedom dividend" proposal add up? (Tax Foundation, 2019).
8 The freedom dividend defined (Andrew Yang, 2020).
9 Does Andrew Yang's "freedom dividend" proposal add up? (Tax Foundation, 2019).

The UK experience

There is a heated debate in the UK on whether to implement a UBI system.[10]

In Scotland, implementation is being explored through pilot schemes. According to the Fraser of Allander Institute, a Scottish UBI would require £38bn in net additional funding after existing benefits have been reduced and the tax-free personal allowance eliminated. This still accounts for 25% of Scotland's GDP.[11] If funded through income tax, UBI would require tax rates to start at 58p for the first £1 earned and rise to 85p for the higher and top rates (ie, a 58–85% tax rate). Estimates for a UK-wide version are approximately the same.

Meanwhile, Wales is planning to explore the idea further by considering a pilot programme soon.[12] The First Minister has said there are "strong arguments" for the pilot to focus on care leavers.[13] [14] However, a number of individuals and organisations are recommending a geographically disbursed, non-means-tested pilot over a multi-year period, which would involve around 5,000 people at an annual cost of around £40–50m.[15] [16]

As the welfare system is not devolved to Wales (as opposed to the Alaska case under a federal system, for example), such an initiative would need backing from the UK government.

According to analysis by the UK Parliament, a weekly UBI of £100 for each person over the age of 16 and £50 per child would cost the Treasury £314bn a year (gross).[17] To put this into context, total spending on benefits, state pensions and tax credits in the UK was around £225bn in 2019/20.

Opponents claim that such a draw on the economy would markedly burden taxpayers and increase government debt. At the same time, the hit to public finances would hinder other government priorities such as infrastructure refurbishment, including the building of hospitals and the construction of affordable housing. In contrast, proponents contend that the government could easily manage the expense by using the scheme to substitute for all other entitlement programmes.[18]

Public social expenditure in the UK currently amounts to around 20% of GDP (see Figure 1), so from an accounting standpoint has the potential to address UBI's financing requirements if appropriate cuts can be made to overlapping services.

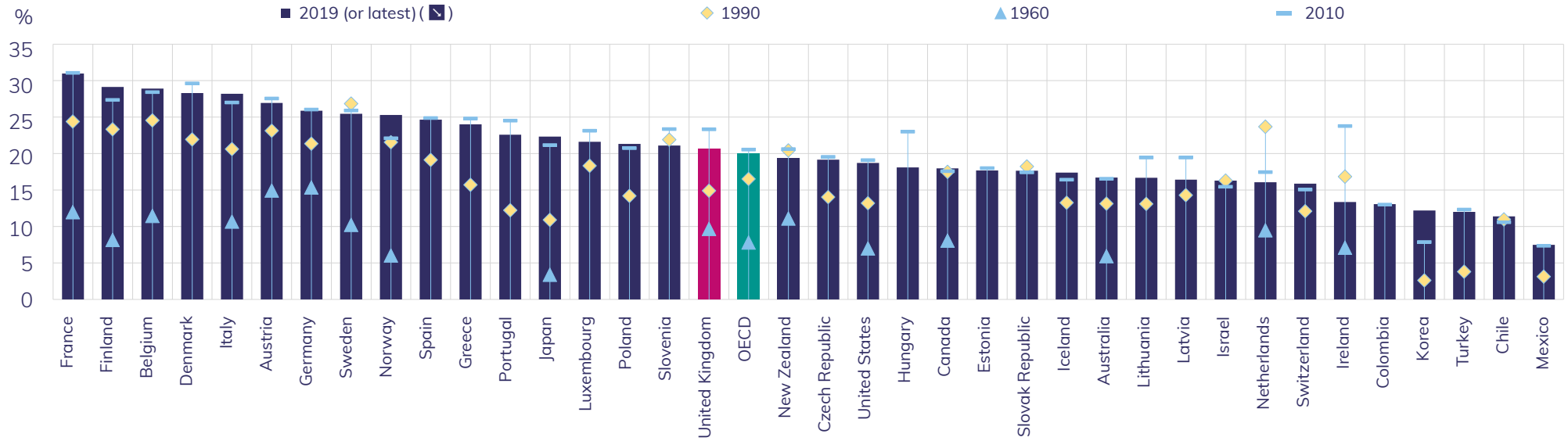
For perspective, Figure 2 shows how much money would be made available per person each year if OECD economies replaced all social spending (excluding healthcare) with a UBI (adjusted for purchasing power). For the UK, this would be about £7,400. However, this assumes that *all* social benefits are eliminated – an unlikely scenario for any country.

Recent research has identified new financing methods with low disruption to the economy and significant distributional gains. A study in the London School of Economics' Public Policy Review posits a 45% flat tax rate as a pragmatic approach to simultaneously simplify the tax system and allow for a £11,000 per annum UBI, while still preserving incentives to work across most of the income distribution.[19] While such a flat rate would reduce earned income for the poorest third by 15% on average, this would be offset by a substantial increase in disposable income – more than double – for the bottom 10% of the population.

10 MPs and peers call for universal basic income (Public Finance, 2020).
11 Scottish economy overview (Scottish Development International, 2021).
12 Wales to test universal basic income (Public Finance, 2021).
13 What might a universal basic income mean for Wales? (Welsh Parliament, 2021).
14 Y Cyfarfod Llawn plenary (Welsh Parliament, 2021).
15 What next for Wales' UBI trial and what could it look like? (The National, 2021).
16 Piloting a basic income in Wales: principles, precedents and feasibility (Autonomy, 2021).
17 The introduction of a universal basic income (UK Parliament, 2020).
18 Universal basic income: a thoroughly wrongheaded idea (Forbes, 2019).
19 Is funding a large universal basic income feasible? A quantitative analysis of UBI with endogenous labour supply (LSE Public Policy Review, 2020).

Meanwhile, another study estimated the net cost of a UBI scheme by deducting benefits and savings.[20] This approach assumed a £7,706 annual pay to adults and £3,853 to children, reflecting about a quarter of median income per capita. The estimated 'net cost' was reported to be in the range of £65–75bn. This would equate to an increase of 10% in the UK government's total spending (or 3.4% of GDP) and an additional 39% to the cost of the existing benefits system (excluding spending on the NHS). Such conclusions were based on numerous assumptions, including a 50% flat tax rate.

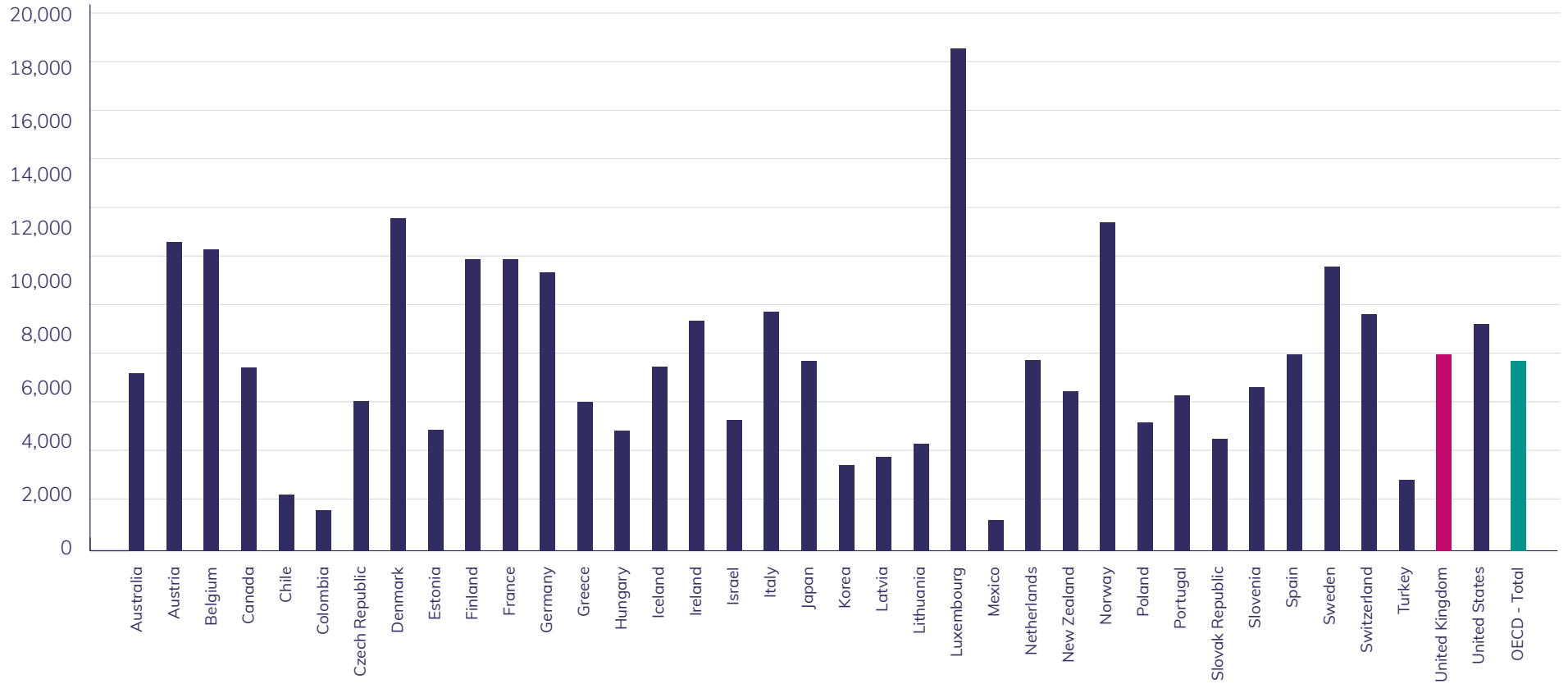
Figure 1: Public social expenditure as a percentage of GDP – 1960, 1990, 2010 and 2019 (or latest year available)



Source: OECD Social Expenditure Database.

20 Basic income could virtually eliminate poverty in the United Kingdom at a cost of £67bn per year (Resilience, 2020).

Figure 2: Social expenditure per person (2017 current prices and PPP)



Source: OECD Social Expenditure Database.

International case studies

Despite an extensive theoretical background, there is not much empirical evidence of the impact of UBI implementation. In this section, we assess the experiences of four jurisdictions that have considered UBI.

Iran: the first universal implementation of UBI

In 2011, Iran started UBI to replace sizeable energy and bread subsidies. The government started monthly deposits of cash into individual accounts, covering more than 70 million people and amounting to 28% of the median per capita household income (about £28 (455,000 rials) per person each month). At the same time, energy prices soared, ranging from quadrupling for gasoline to nine-fold for diesel.

The logic of replacing a subsidy that transferred the country's natural wealth to households and firms based on the amount of energy they consumed with uniform cash transfers instead was compelling. The programme was praised[21] as innovative, watertight and, compared to subsidised energy, a much more efficient and equitable way to distribute the nation's natural resources, and because the poor were more than compensated for higher bread and energy prices, poverty and inequality declined.[22] Moreover, the programme was not found to affect labour supply in any appreciable way.

Unfortunately, inflation surged to 35% in 2013 because of international sanctions, political feuds and uncontrolled money printing. This substantially harmed the popularity of the programme while contributing to the collapse of Iran's currency. Although the programme remains operational, its future is uncertain due to three major issues:

- inadequate funding
- the declining value of the transfer amount from £28 per person, per month in 2011 to £1.3 now in real terms (the nominal value remained fixed despite sustained high inflation)
- the current policy of abandoning universality in favour of targeting the 'needy'.[23]

United States: Alaska Permanent Fund

The US has attempted a few basic income schemes, but most have been short-lived, small-scale trials.[24] Alaska is an exception with a cash transfer programme similar to that of a UBI. Since 1982, Alaska has deposited at least 25% of mineral royalties – revenue the state generates from its mines, oil and gas reserves – into the Alaska Permanent Fund on an annual basis.

The money is subsequently invested in assets such as stocks, bonds and private equity, with interest earnings then returned to Alaska's residents every September. The nominal value of this distribution is dependent on global fuel prices and the return on investments. In 2019, US$1,600 was distributed to more than 85% of the 731,500 people living in Alaska.

According to the National Bureau of Economic Research (NBER), the programme in Alaska had no negative effect on employment but increased part-time work by 17%.[25] There is also some evidence on the positive effect of the programme on poverty.[26] On the other hand, another study found that the pay-outs tended to worsen income inequality over both the short and long run.[27] A possible explanation for this is that there may exist differences in consumption behaviours between low-income and high-income groups. If the payment is spent on non-durable goods by the lowest income groups but saved or invested by those with higher incomes, then this may gradually result in more uneven outcomes.

21 Cash transfers and labour supply: evidence from a large-scale programme in Iran (ScienceDirect, 2018).
22 Energy subsidy reform in Iran (from The Middle East Economies in Times of Transition, 2016).
23 Universal child benefit case studies: the experience of Iran (UNICEF, 2019).
24 Everywhere basic income has been tried, in one map (Vox, 2020).
25 The labour market impacts of universal and permanent cash transfers: evidence from the Alaska Permanent Fund (NBER, 2018).
26 Resource rents, universal basic income and poverty among Alaska's indigenous peoples (ScienceDirect, 2018).
27 Can an oil-rich economy reduce its income inequality? Empirical evidence from Alaska's Permanent Fund dividend (ScienceDirect, 2017).

Finland: Europe's test case

In 2017, Finland became the first European country to test a government-backed, unconditional basic income. The pilot programme provided a regular stipend with no strings attached. A tax-exempt sum of €560 per month was paid to a randomly selected group of 2,000 unemployed Finns aged 25–58 on a flat-rate unemployment benefit (the selection criteria was just for the pilot). In the initial design, the payable amount and number of participants were set higher at about €1,000 and 10,000 participants respectively, but these were then revised at lower amounts, given the predicted budget (£17.6m) and timeline.[28]

UBI replaced the existing unemployment benefit scheme and was paid even if a participant took up work. This was in contrast to unemployment benefits, which stopped with employment. Meanwhile, a control group was formed using the remainder of the unemployed population, which continued to receive the standard taxable benefit of about €730 per month. The idea was to identify differences between the treatment and the control group after the policy intervention to establish causality. The experiment was financed by €20m that the government reserved for this purpose.

Although the programme ended as planned in December 2018, its aim was to study how the Finnish social security system could be reshaped to better meet the challenges posed by changes to working life. According to a post-review evaluation of the programme published last year, participants experienced higher life satisfaction and less mental strain, depression, sadness and loneliness but were no more likely to land a job.[29] Meanwhile, there was very little difference in employment or earned income between the groups.

Kenya: a long-term basic income experiment in a lower-middle income country

In 2017, a large UBI experiment was launched in rural Kenya. Managed by non-profit GiveDirectly and designed by economists from MIT and Princeton, the US$30m project is expected to run for 12 years and includes 20,000 individuals living across 197 villages.[30] An additional 100 villages were surveyed to form a control group. Financing of the scheme has been through donations, particularly from large technology companies such as Google and Microsoft.

The trial split participants into four groups:

- A long-term cohort receiving payments of 75 cents per adult, per day for 12 years (calculated to cover basic needs such as food and healthcare).
- A short-term group receiving the same payment but for just two years.
- A lump-sum group receiving a single US$500 payment (equal to the total amount the short-term group would receive over two years)
- A control group receiving no money.

While it's too soon to have reliable performance indicators, a study was published in December 2020 relating to the impact of COVID-19 on the participants of this scheme.[31] According to the report, the transfer payments had improved wellbeing on measures such as hunger, sickness and depression, despite the pandemic. Researchers also noted that recipients had fewer hospital visits and social (but not commercial) interactions. These findings suggest potential public health benefits.

Although recipients lost the income gains accrued from starting new, non-agricultural enterprises prior to the pandemic, they also suffered smaller increases in hunger. This research cautions that the effects may differ in countries that are wealthier than Kenya, or in more urban or more remote areas. Meanwhile, the effects of UBI are likely to differ across the developing and developed world.

28 One of the world's largest basic-income trials, a two-year programme in Finland, was a major flop. But experts say the test was flawed (Business Insider, 2019).
29 Results of Finland's basic income experiment: small employment effects, better perceived economic security and mental wellbeing (Kela, 2020).
30 Kenya UBI study (GiveDirectly, 2017).
31 Effects of a universal basic income during the pandemic (University of California, San Diego et al, 2020).

Table 2: Summary impact and investment of case study programmes

Case	Payment per month	Status	Impact	Financing
Iran	455,000 rials (£28 in 2011; £1.3 in 2021).	Ongoing.	No negative effect on the labour market; reduced poverty and inequality.	Through reductions to energy and bread subsidies.
Alaska	Variable (depending on investment returns – eg, £130 in 2015 and £100 in 2019).	Ongoing.	No negative effect on the labour market; reduced poverty; increased inequality.	Returns from Alaska Permanent Fund investments.
Finland	£490.	Ended in December 2018.	No negative effect on the labour market; improved wellbeing.	€20m (£17.6m).
Kenya	Variable.	Ongoing.	Forthcoming but preliminary indications of improved health and wellbeing.	US$30m.

Conclusion

Implementing a meaningful system of UBI is likely to be expensive, but net costs could be made affordable if appropriate savings are generated or adequate tax reforms put into place. When considering feasibility, decision makers must consider the fiscal space required in terms of available financing and medium-to-long-term debt sustainability to finance all or part of a proposed programme. In practice, this could be achieved through the reduction of overlapping welfare benefits, new revenue generation (eg, tax reform, subsidy cuts), additional borrowing or the drawdown of surpluses. Usually, a combination of different financing methods is suggested, not just one.

Decisions around UBI are heavily influenced by political considerations, making a singular definition of success difficult. While UBI has the potential to redistribute wealth more evenly across households, it could also direct capital towards lower tax jurisdictions, negatively impacting the domestic economy. Moreover, if the basic income level is set too low, it may not produce sufficient benefits such as those offered through existing programmes like pensions insurance, unemployment insurance and municipal welfare.

The body of existing evidence on UBI to date is limited and often inconclusive. An over-reliance on short-to-medium-term data and conflicting theoretical assumptions have not helped. In the absence of substantive longitudinal studies, it is tempting for politicians or researchers to cherry-pick particular aspects of UBI rather than reflect on the broader social and economic ramifications. Unitary governance structures, where large-scale fiscal decisions tend to be controlled by one party or coalition, can be more prone to such biases. In contrast, a federal system with more dispersion of legislative authority may allow for additional flexibility and customisation at the initial policy design stage.

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Conclusion

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The evidence reviewed in this report suggests that context is key when considering the implementation of UBI. As circumstances relating to available resources and tools can vary significantly across jurisdictions – including the financing methods, payment amounts and beneficiaries – this can affect the underlying capacity of governments to effectively utilise the various features of the model.

In many advanced economies where distributional objectives such as the reduction of poverty and inequality are primary drivers of policy formation, a replacement of targeted social safety nets with UBI may concentrate average net income losses on lower deciles of the population and net income gains on the upper deciles.

Overall, given that implementing UBI potentially requires large-scale changes to the social benefit, welfare and tax systems – a time-consuming, political and costly process – it may be more practical to experiment further with pilot programmes to learn the best way of scaling and scoping service delivery that ensures value for money.

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