

Basic income and basic income experiments

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Four questions

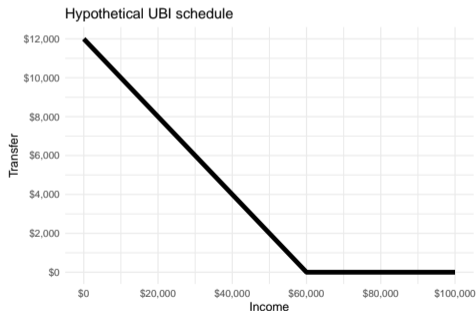
1. What does “basic income” mean?
2. Why might we want a basic income?
3. What do we expect to learn from basic income trials?
4. How should we design basic income trials?

What does “basic income” mean?

- An unconditional transfer to everyone, regardless of their income?
- A substitute for all other social insurance programs or public goods provision?
- A pathway to the decommodification of our lives and a post-capitalist world?

My preferred answer:

- A negative income tax,
- paid upfront, regularly, to individuals,
- providing a minimum income that no one can fall below,
- but explicitly taxed away at some rate,
- and not intended as a substitute to existing programs.



Why would we want a basic income?

Popular answers:

- To help us through the coming robot apocalypse, providing sustenance for the superfluous unemployed masses, while a small tech elite runs the world? (“Silicon Valley argument”)
- To replace all public goods provision by cash? (“Chicago argument”)
- To create a post-capitalist utopia where we are liberated from wage labor?

My answers: Four reasons.

1. The magic bucket (optimal tax theory).
2. Equilibrium effects on wages and working conditions.
3. Outside options and freedom from oppression.
4. Universality and political sustainability.

Reason 1: The magic bucket (optimal tax theory)

- Leading redistributive alternative to basic income: Subsidies of low-wage work (or other conditionalities).
E.g. Earned Income Tax Credit in the US.
- Optimal tax theory (e.g. Mirrlees model) says: Such subsidies distort incentives; they cause people to work more.
- Unconditional transfers would reduce the resulting inefficiency. The pie gets bigger, and more goes to those who need it: “Magic bucket.” We can take 1€ from a rich person, and give more than 1€ to a poor person.
- Core of the underlying argument: People choose what’s best for themselves. If they don’t take wage jobs, that has a reason.
- This logic is completely standard when applied to rich people. For poor people, it is often assumed they need to be induced to work, against their own wishes.

Reason 2: Improving the bargaining power of workers (equilibrium effects)

- Subsidies of low-wage work depress wages.
- By providing incentives for people to work, such subsidies allow employers to pay less, so that they are a transfer to employers rather than workers.
- Unconditional transfers improve workers' bargaining position and wages.
- Basic income provides an “unlimited strike fund” for unions.

Reason 3: Outside options and freedom from oppression

- Basic income provides the option to “say no” to relationships based on material dependency, without fear of poverty:
 - To leave abusive romantic relationships.
 - To resist employer harassment and exploitation.
 - To refuse impositions by government welfare bureaucrats.
- The option to leave will shift the balance of power within these relationships, improving the position of those worse off.
- This is not true for transfers with conditionality.

Reason 4: Universality and political sustainability

- Services for the poor tend to be poor services.
- Narrowly targeted benefits do not have a strong political constituency.
- Examples:
 - Social housing in the US versus Austria.
 - Medicare (old people) versus Medicaid (poor people) in the US.
- Universal programs have strong democratic support, and are hard to abolish.
- If a basic income is universal then everyone is a beneficiary.

Some recent basic income experiments

- Ontario, Canada, Basic Income Pilot Project
 - Launched in 2017, canceled after a conservative party won in 2018.
- Stockton, California
 - 125 residents below median income, started in 2019, 500\$ / month, for 8 months.
- Y-Combinator pilot in Oakland, California
 - Plan to give 1500\$ per month to 100 families, start has been delayed.
- Finland
 - 2017 - 2019, 560€ month, 2000 participants, random sample of unemployed.
- Kenya
 - Organized by the NGO GiveDirectly, various pilots under way.
- Marica, Brazil
 - Oil discoveries in poor municipality with progressive government. Revenues will be disbursed as basic income.

What do we expect to learn from basic income trials?

- Whether people who get basic income are
 - happier,
 - healthier,
 - consumer more?

(“Program evaluation approach”)
- Whether basic income
 - discourages work, or
 - encourages investments, or
 - has general equilibrium effects on prices, wages?

(“Empirical public finance approach”)
- **My preferred answer:**
 - To evaluate whether it improves an explicitly specified notion of social welfare, relative to the status quo.
 - To find the specific program parameters that maximize this notion of welfare.

How should we design basic income trials?

- Proof of concept:
 - Give money to a bunch of people.
 - Argue that it was good for them to get the money.
- Conventional program evaluation:
 - Pre-define basic income policy parameters.
 - Split sample equally into treatment and control group, ex ante.
 - Measure a large list of outcomes.
 - Report causal effects of basic income on these outcomes, comparing treatment and control.
- **My preferred answer:**
 1. Embedded in an explicit normative framework, such as the utilitarian welfare framework of optimal tax theory.
 2. Run the experiment in multiple waves, adapting assignment based on the outcomes of previous waves.
 3. Find the policy that maximizes welfare.

Political opportunities of the present crisis

- We will face an extended recession in the wake of the pandemic.
- In such a generalized crisis more people perceive poverty as being due to systemic factors rather than due to individual failings.
- Unemployment benefits are being extended in many countries.
- Central banks are discussing “helicopter money” as an instrument to stabilize consumer demand.
- Maybe this is a moment where political majorities in favor of universal basic income can be found?

Recommended readings

- *Why a Universal Basic Income Is Better Than Subsidies of Low-Wage Work*
https://maxkasy.github.io/home/files/papers/UBI_EITC_Kasy.pdf
- *Public finance lecture notes* by Emmanuel Saez.
<https://eml.berkeley.edu/~saez/course131/course131.html>
- *Basic Income: A Radical Proposal for a Free Society and a Sane Economy*
Book by Philippe Van Parijs and Yannick Vanderborght.

Thank you!